

**H.R. 853, THE COMPREHENSIVE BUDGET
PROCESS REFORM ACT OF 1999**

HEARING
BEFORE THE
COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES
ONE HUNDRED SIXTH CONGRESS
FIRST SESSION

HEARING HELD IN WASHINGTON, DC, MAY 20, 1999

Serial No. 106-4



Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1999

56-869cc

COMMITTEE ON THE BUDGET

JOHN R. KASICH, Ohio, *Chairman*

SAXBY CHAMBLISS, Georgia,

Speaker's Designee

CHRISTOPHER SHAYS, Connecticut

WALLY HERGER, California

BOB FRANKS, New Jersey

NICK SMITH, Michigan

JIM NUSSLE, Iowa

PETER HOEKSTRA, Michigan

GEORGE P. RADANOVICH, California

CHARLES F. BASS, New Hampshire

GIL GUTKNECHT, Minnesota

VAN HILLEARY, Tennessee

JOHN E. SUNUNU, New Hampshire

JOSEPH PITTS, Pennsylvania

JOE KNOLLENBERG, Michigan

MAC THORNBERRY, Texas

JIM RYUN, Kansas

MAC COLLINS, Georgia

ZACH WAMP, Tennessee

MARK GREEN, Wisconsin

ERNIE FLETCHER, Kentucky

GARY MILLER, California

PAUL RYAN, Wisconsin

PAT TOOMEY, Pennsylvania

JOHN M. SPRATT, Jr., South Carolina,

Ranking Minority Member

JIM McDERMOTT, Washington,

Leadership Designee

LYNN N. RIVERS, Michigan

BENNIE G. THOMPSON, Mississippi

DAVID MINGE, Minnesota

KEN BENTSEN, Texas

JIM DAVIS, Florida

ROBERT A. WEYGAND, Rhode Island

EVA M. CLAYTON, North Carolina

DAVID E. PRICE, North Carolina

EDWARD J. MARKEY, Massachusetts

GERALD D. KLECZKA, Wisconsin

BOB CLEMENT, Tennessee

JAMES P. MORAN, Virginia

DARLENE HOOLEY, Oregon

KEN LUCAS, Kentucky

RUSH D. HOLT, New Jersey

JOSEPH M. HOEFFEL III, Pennsylvania

TAMMY BALDWIN, Wisconsin

PROFESSIONAL STAFF

WAYNE T. STRUBLE, *Staff Director*

THOMAS S. KAHN, *Minority Staff Director and Chief Counsel*

CONTENTS

Hearing held in Washington, DC, May 20, 1999	Page 1
Statement of:	
Hon. Jim Nussle, a Representative in Congress from the State of Iowa	4
Hon. Benjamin L. Cardin, a Representative in Congress from the State of Maryland	13
Hon. David Minge, a Representative in Congress from the State of Min- nesota	19
Hon. Jacob J. Lew, Director, Office of Management and Budget	38
Carol Cox Wait, President, Committee for a Responsible Federal Budget ..	53
Hon. Dan L. Crippen, Director, Congressional Budget Office	61
Rudolph G. Penner, former Director, Congressional Budget Office, Senior Fellow, the Urban Institute	71
Robert Greenstein, Executive Director, Center on Budget and Policy Pri- orities	75
Prepared statement of:	
Congressman Nussle	8
Congressman Cardin	16
Congressman Minge	20
Director Lew	39
Ms. Wait	56
Director Crippen	64
Mr. Penner	73
Mr. Greenstein	79
Larry Bossidy, Chief Executive Officer, AlliedSignal, representing the Business Roundtable	98
Hon. Porter Goss, a Representative in Congress from the State of Florida	100
Martha Phillips, representing the Concord Coalition	101
Bill Frenzel, Co-Chairman, Committee for a Responsible Federal Budget .	105
April 6, 1999, letter from Director Lew to Congressman Spratt	46

H.R. 853, THE COMPREHENSIVE BUDGET PROCESS REFORM ACT OF 1999

THURSDAY, MAY 20, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 11 a.m. in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Members present: Representatives Kasich, Chambliss, Shays, Herger, Franks, Smith, Nussle, Gutknecht, Knollenberg, Ryun of Kansas, Collins, Wamp, Green, Ryan of Wisconsin, Toomey, Spratt, McDermott, Minge, Bentsen, Clayton, Price, Moran, and Holt.

Chairman KASICH. The committee will come to order. Today we are going to have a hearing on, obviously, budget process reform. We will have the first panel, followed by a third panel, and then sandwiched in between, Jack Lew, who will be up here to talk about the administration's feelings about the bill.

It is a long time coming. I am not sure this bill will at the end of the day make it all the way through law, but if we don't get moving here and get ourselves in a position of where we can start creating the precedent of being able to deal with budget process reform, then I think we are not taking advantage of some opportunities.

This process reform does take some important steps. It gives the budget the force of law and encourages Congress and the President to start negotiating earlier, rather than later, each year. We could figure that out. If this could actually make that happen, that would be a wonderful thing.

It causes us to establish a kind of rainy day fund for emergencies. So I think this is a breakthrough also, because it says we should start paying attention to emergencies.

It also begins to force us to address some of the long-term liabilities. It also addresses some of the higher spending biases that we have hidden in the budget procedures and contains a provision that would prevent government shutdowns. Under the bill, if the President and Congress can't reach all their agreement by the time their fiscal year starts, they can't play games with the operation of the government, which is great.

I want to particularly heap high praise, medals, and crowns on Jim Nussle in particular and his partner in this, Ben Cardin, two who really over the last year have really dug into this effort. I want to give them my personal thanks and a salute to them, and particularly Jim for the work he has done. I will give a smaller crown,

fewer medals, to David Minge, who is just sharing in the glory here this morning. They were able to work together—are you running for the Senate, David?

Mr. CARDIN. Are you running for President?

Chairman KASICH. There is a quote of the day. Get that down, Bud.

Anyway, I think this is really a good process. We will just have to see how it all plays out.

So let me just say to John, before we start the hearing, we will try to mark this bill up when we come back from Memorial Day. We are going to have some work to do on the airport bill and what we do with the on-budget/off-budget. John and I have to have some conversations. My colleagues on my side, we have to figure out where we are on all of this.

So anyway, I want to, John, give you the floor and tell you that is the first time I have seen that Panetta picture. It is pretty good, but it is a little dark. Good for Leon. OK.

Mr. SPRATT. Thank you, Mr. Chairman. Let me join you and commend Chairman Nussle and Ben Cardin for working together, working in earnest, and, according to Ben, Jim has been more than cooperative and more than bipartisan, and I congratulate you. I think you have put your shoulder to the wheel and really worked on something that you think will be an improvement to the process.

I have to disagree with many parts of it, unfortunately. I don't criticize you for the effort; we just don't agree as a matter of process on many of your recommendations, starting with the notion that the budget should be a joint resolution rather than a concurrent resolution.

I wholly agree the President and the Congress should get together sooner rather than later. The best example I can give of that is 1997 when the President insisted that we come together and begin negotiating a budget early in the spring. The product of that was the Balanced Budget Act of 1997. I think that is a good example of the kind of cooperative bipartisan by-product that can come from that kind of endeavor.

I am not sure that your own resolution leads you in that direction. In fact, I think the joint resolution could delay rather than expedite the process. It could create some unintended problems since it does become a law, even though you would prohibit it in your statute that implemented these concepts. Since a joint resolution is law and a concurrent resolution is not, it would be an invitation for some across-the-board riders that would deal with things like abortion. You may say no, we can take care of that, but who would have ever thought you would see an abortion issue holding up a U.N. funding bill? Abortion is so many places that it does crop up. So the temptation and the urge and the compulsion to put it somewhere might make this the greatest target of all, because it cuts across the whole budget. It has a wider swath than anything else.

That would be one problem. But I am more concerned about the occasions when the President really is bent upon getting his way, not willing to compromise; or when the Congress is of the same mind, you can't come together, and this joint resolution requirement, while it can be sidestepped eventually, nevertheless involves

wheel-spinning for several months and loss of time rather than gain of time.

Ironically, the end result that you propose, after saying we are going to elevate the budget resolution to the status of a joint resolution instead of a concurrent resolution, the end result of all this effort is less of a budget resolution than we have today, because you would take the 20 functions which are the main product of our effort here, take the 20 functions out of the budget resolution and put them in the committee report.

If there is to be a joint resolution and if the object is to have a meeting of the minds between the President and the Congress, then probably the end result should not be a 302 allocation agreement, but a 302(b) allocation agreement, where the President and the Congress would come together and say these 13 allocations are what we agree upon.

I know this is heresy, this is radical talk, but if you are going to have a meeting of the minds, that is really a road map for the budget process so that the President and the Congress are more or less agreed. You haven't agreed on spending items but you agreed on the broad 13 categories, then this would be, I think, the desirable end product of all of this effort.

Chairman KASICH. I just wanted to say to the gentleman that that is a very interesting suggestion, a very interesting suggestion, about the 302(b)s. Anyway, not that I am telling you to put it in, but it something to really think about. I don't think it is a radical suggestion. I think it is a pretty darn good suggestion.

Mr. SPRATT. I told Jim Nussle, if you want to see something bipartisan, you would see bipartisan opposition, I am sure.

Second thing, I will give these as examples and quit, because we have witnesses to hear from and I don't need to occupy the time of the committee with a lengthy opening statement. One of the reasons we find ourselves in the happy position of having surpluses and soon having on-budget surpluses is because we adopted some rules in 1990 which have been very easy to display. The PAYGO rule is one, the discretionary spending caps is another. I am concerned this bill may weaken the discretionary spending caps in a couple of ways. First of all, it allows for the PAYGO rule—it changes the PAYGO rule so that you can use on-budget surpluses to offset either tax increases or entitlement cuts. I don't think we can allow the on-budget surplus to accumulate forever and say it cannot be used as an offset for any of these things. But before we sanction the use of it, I think we first should deal with Social Security. I know that is a political mantra of our party, but I think it is a high priority.

Secondly, Mr. Kasich, our Chairman, has just told us that in a week or two we are going to take up the request of the Transportation Committee, the infrastructure committee, to take the Aviation Trust Fund off budget. The land and water conservation supporters also want to take it off budget. The nuclear power generators want their millage taken off budget as well. There is a big effort now to take these trust funds off budget, and frankly, they have a valid argument. These are dedicated revenue streams that are being used in part for other purposes.

If we were to allow the on-budget surpluses to accumulate for the next several years, about 3 or 4 years, it would actually be enough on-budget surplus there to nearly fully fund all the 150 trust funds and still maintain the approximate level of expenditure we have got for discretionary spending now. I think we ought to consider that objective, going back to the budget and straightening the budget out so we can take care of these dedicated funds, put them to their earmarked purposes, and still have enough left for other purposes without having to invade the corpus of these funds.

This just gives you sort of a low-level concern, micro-concern, that you derive if you really read the text of this bill and game how it might work. Somewhere toward the end of the bill it says, in projecting CBO's projections and OMB's projections of future levels of expenditure, the assumption with respect to discretionary spending should not be the capped baseline which CBO uses, which is discretionary spending today adjusted by inflation, but it should be an extrapolation or extension of the existing discretionary spending cap at the level for which it is last established.

So if our cap runs out in the year 2002 and if it is at \$575 billion then, for the next, however long you are projecting, according to the text of this bill, that would be the assumption for discretionary spending.

This would artificially inflate the on-budget surplus because it would artificially understate, I think, the level of discretionary spending. I don't think we are already having trouble meeting the levels this year. It will get harder and harder as we go on. If you statutorily assume that this will be the level and that on-budget surpluses will be computed with this cranked into the calculation, you are inflating the on-budget surplus and encouraging tax cuts to be made that probably can't be supported by spending cuts downstream.

These are some of the problems I have with the bill that cause me to oppose it. But I don't want to end without saying once again I admire the effort you have made, and I don't rule out the possibility we may find some ground for common agreement. But there are lots of disagreements we have with the mechanics of this bill you are presenting before us.

Thank you very much, Mr. Chairman.

Chairman KASICH. Mr. Nussle, you may proceed.

**STATEMENT OF THE HON. JIM NUSSLE, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF IOWA**

Mr. NUSSLE. Thank you, Mr. Chairman. Let me start by thanking you and Mr. Spratt for not only your kind remarks this morning about the work product, even notice there may still be some heartburn, some concern, and maybe some disagreement and opposition. We appreciate the high praise that you have given us and the opportunity to form this task force to work on this effort.

I want to thank all of the task force members, particularly Ben Cardin and David Minge, for their work and their interest in this.

Mr. Chairman, you were handing out medals before. Let me suggest to you that the work product we have come up with today is really one of those items that has been gleaned from the work products of many, many representatives over many years. We

weren't the first ones to discuss some of these ideas, such as the joint resolution idea. If I am not mistaken, I think Mr. Spratt was even on a bill at one time that favored at least some form of joint resolution. Chris Cox from our side. So there are many people who have come up with many good ideas in an incremental way for budget reform, and I want to thank all of them, because we have gleaned through our hearings, their advice, their counsel, their ideas and put them into this bill.

The other thing I would just comment on is that this is not a science. When I came here to Congress, I maybe falsely assumed, and my constituents probably assumed too, that budgeting is a science. It is really an art. What we tried to do in our budget process reform bill is not stand in the way of the art, not stand in the way of the substance or the conclusion of a budget, but make that conclusion more possible, easier to achieve.

So we didn't game this process toward a certain outcome. Mr. Spratt mentioned a moment ago that it may allow it to favor tax cuts or cuts in discretionary programs. "May" is different than it "will," and many budget process reform bills that have come down the pike in recent years gamed the process toward a particular outcome.

What we have done in our process reform bill is tried to say this is the process to get you to the decision, but the decision is still ours. The decision is still the Congress of the United States working in concert with the President, and then we step back from the process to allow the appropriations mechanism, the spending and tax committees, to make their final determination.

So as we work through this, please recognize that we really did try, there was a sincere attempt on all of our parts, to never get into the substance of the decision itself, but only talk about the game rules, the Board itself, how you played the game to get to that decision.

Finally, as far as thank you's, let me also mention some staff people. These are folks who know this budget inside and out, the budget process bills. In fact, if I am not mistaken, one of them was there at the infancy of the 1974 act and helped write the original bill. Jim Bates, Richard Kogan, David Koshgarian, Rich Meade and Scott Bruns all helped in putting this together. I want to thank all of them. They are both from the Majority and Minority staffs of the budget and from our personal staffs.

If I may, Mr. Chairman, let me walk through some of the basics of the bill for those Members who have not had a chance to sink their teeth into this.

What we are basically doing is we are changing the way the budget is arrived at. As most of you know now, we have what is called a concurrent budget process and concurrent resolution for the budget, which means it doesn't have the force of law. It has the force of Congress' resolution. But, as you know, that doesn't mean all that much all that often and can be changed quite often.

What we decided was based on the success of what Mr. Spratt and John Kasich, our Chairman, and the administration went through, as well as Senate budgeteers in 1997, in early on setting some aggregate numbers, putting them into a memorandum of

agreement, and then setting that out as the box from which we work the rest of that year.

We decided to try and codify that process. So what we came up with was a joint resolution. So the President would submit his budget, Congress would pass a joint resolution, meaning a resolution that would require the President's signature for it to have the force of law.

What does that mean? It means we have to have an agreement, and we have to have it before April 15th. It means the Chairmen of the Budget Committees and the Ranking Members of the Budget Committees, together with the administration, regardless of what parties they may be, including if they are from the same party, would have to sit down early in the process, and instead of these budgets since 1974 which arrived on Capitol Hill dead on arrival, we would have a process similar to 1997 that the budgets would tend to be more realistic, they would tend to be more honest, they would tend to have the opportunity at least for negotiation early on, so that most of that discussion and good work done by both sides would not be for loss.

Let's assume for a moment the President doesn't like the budget that is submitted. Let's assume there is a breakdown in those negotiations. It doesn't mean the process stops. What it means is that Congress can fall back to its regular order, which is the concurrent process. It means Congress is not stymied under its constitutional duty under Article I to be the holders of the purse. We would still be able to set all of the 302s, we would still be able to pass a budget, and we would still be able to submit those appropriation bills to the President at the end of the year.

However, early in the process, we would know that there was a problem. We would know that there wasn't agreement. The press, our constituents, the people watching, would know. Instead of waiting until October and seeing some bill that is 6,000 pages long come before us at about 12:30 at night, they would know there is a problem, and the pressure would start mounting for agreements and discussions to move back toward a more orderly process.

If in fact there is a joint resolution, of course, that would set the wheels in motion for a regular order similar to what happened in 1997. It wouldn't take away the opportunity for discussion. It wouldn't take away anything from the appropriation and tax writing committees, but it would, by the end of the time, give us an opportunity for a much more orderly process as a result of having that box.

What would the concurrent resolution—excuse me, what would the joint resolution look like? The current format, which is in the materials you have, have the 20 functions which, as Mr. Spratt said, would now as a result of our bill be put into report language. Part of the reason we did that is because who can tell me the relevance of these 20 functions anymore? Do they have any relevance, really, in all seriousness, toward the 13 appropriation bills? First of all, there is very little correlation.

So what we did was put all those budget functions into report language. Instead, we came up with a one-page budget that is similar to the memorandum of agreement that was arrived at back in 1997 which set the aggregate numbers for total spending revenue,

surpluses and debts subject to limits as well as mandatory spending and discretionary spending.

We didn't go as far as Mr. Spratt's suggestion about putting the 302(b)s in here. I have a feeling, as he suggested, we would lose in a very fast manner most of the bipartisan support, particularly from the appropriators. But we did at least try and set the bigger box so that the rest of the work could be done.

The other part of this that I wanted to just bring up before I turn it over to my colleagues is emergency spending. One of the biggest areas of heartburn over the last 4 or 5 years in particular has been emergencies and our supplemental appropriations.

What we tried to do here is we tried to put more orderly process into that as well, starting with budgeting for emergencies. On a 5-year rolling average, according to recommendations by our FEMA Director, James Lee Witt, who has had an opportunity to research this and give us his impression, he suggested a 5-year rolling average for emergencies, except for, of course, situations, as we find ourselves in, where we are at war. But most of the other emergencies that we have been able to deal with, we could put in a 5-year rolling average and actually budget for that as part of the budget process.

Then, as long as you stayed within that rainy day fund, if you will, the appropriators would have not much more to do with the Budget Committee except every time there was an emergency, it would have to meet the definition, which is a definition we took from the Senate definition of emergencies as well as one submitted by the administration for emergencies. We suggested that was a good definition and we worked out that as long as it stayed within that rainy day fund, there would be very little more discussion other than the bill would come to the floor for passage.

If it goes over that, if the amount is more than the reserve total, then the Budget Committee would have to come in and amend or exempt the emergency from PAYGO and would have to exempt the emergency spending from the allocations and the aggregates under the caps. After that, of course, it would follow the same process.

Let me just comment on a couple of things that Mr. Spratt said on his different concerns, because I think there are a couple of them that are—first of all, I appreciate the tenor of his remarks. We have been able to keep this out of any kind of partisan discussion, and I respect his concerns about the process.

First, on the caps and what that would do to CBO projections, we purposefully in here decided not to set caps, again because that is a substantive decision: where the caps are, where they go; higher, lower. Wherever they might eventually arrive is something that Congress and the President need to work out prior to 2002 and arguably needs to be part of the first joint resolution as part of our new budget process.

So as a result, what did we do as a result of not having those caps? We told CBO that one of the ways to apply pressure to the budget process is say that if there are no caps, we assume everything is just flat. What does that do? Of course, nobody is going to allow flat spending. As much as the Republicans like to talk about being the ones that like smaller government and smaller spending, we would probably rush in too and talk about the need for increas-

ing spending. In my area, probably in agriculture, everybody has got an area that they are concerned about for increased spending or increased priority.

So I have no doubt that this will help provide pressure as opposed to, as has been suggested, assuming that the amount of money left over would immediately go to either pay down the debt or go to tax cuts.

Finally, let me just suggest that with regards to the on-budget/off-budget situation, we felt the discussion in a partisan way had gone far enough and that really last year when this was negotiated, it was important for us to set aside that money that came in which was Social Security and to set that aside off-budget for Social Security.

This does not preclude, however, as Mr. Spratt suggested, the use of the on-budget surplus for Medicare or Social Security if that is in fact the will of the Congress, and it would require that will of Congress in order to do it now under current law. All we are suggesting is that under our process, let's at least agree that there is money that goes into Social Security that ought to be off-budget and not touched, and at least agree on that. The rest of the discussion, whether it goes to tax cuts, Social Security, Medicare, increased spending, whatever it might be, is the will of the Congress, and, again, we try to stay as a result of our bill away from the discussion of outcome on that substantive point.

There are many other points within our bill. I talked about some of the highlights that I felt were important, and I appreciate your interest in listening. I would just point out too, as Mr. Spratt suggested and Mr. Kasich suggested, I had already today 2 people come up to me with new suggestions for the bill. So I have a feeling that—and they were constructive and not partisan. My hope would be regardless of the outcome today and regardless of people's impression from the hearing, that there may be some support or not support, or people are counting noses already, let's keep the conversation alive. We cannot have the train wreck we had when the government shut down in 1996, and we cannot have the kind of really embarrassment that occurred in 1998 either. I don't think either party from any perspective can be proud of either one of those two instances.

So, please, let us work together to come up with a new process that meets some of those challenges, even though you may not appreciate every single punctuation point in this particular bill.

With that, I appreciate the time.

[The prepared statement of Jim Nussle follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF IOWA

I want to thank my Chairman, Chairman Kasich, for calling this important hearing on our bipartisan budget process reform bill (H.R. 853) and for allowing me and my friends and colleagues, Representative Ben Cardin (D-MD) and Representative David Minge (D-MN), to testify. We all appreciate Chairman Kasich's leadership and assistance in helping us move forward with budget process reform legislation. I also want to thank two additional members of this committee, Representatives Sununu (R-NH) and Radanovich (R-CA), for the important roles they have played with H.R. 853.

Before I begin my testimony, I would be remiss if I did not also thank Chairman Goss of the Rules Committee's Subcommittee on Legislative and Budget Process for

his leadership and hard work in the development of H.R. 853. As you know, Chairman Goss did fine work as Co-Chairman of the joint budget process reform task force formed between our committees.

I would also like to recognize the contributions of the many talented staff members who have logged numerous hours in this process. Jim Bates of the Budget Committee Majority Staff as well as Richard Kogan of the Budget Committee Minority staff proved to be valuable resources and reliable counselors in this process. Additionally, David Koshgarian of Representative Cardin's staff and Rich Meade and Scott Bruns of my staff were also instrumental in the development of this legislation.

In February 1998, Chairman Kasich appointed a bipartisan task force on budget process reform to address such issues as the nature and structure of the budget resolution, the budgetary treatment of emergencies, budgeting for contingent liabilities, and baselines and budgetary projections. Chairman Kasich deserves much of the credit for this bill as he urged me to work with the Democrats on the Task Force and gave me the necessary support at critical junctures in the process to produce a bill (H.R. 4837) before the end of the 105th Congress.

Going into this process, we all knew that congressional budgeting practices could be improved. We also knew the Congressional Budget Act of 1974 needed to be examined with an eye toward an era of balanced budgets and "surplus" revenues. What we did not envision, however, were the difficulties experienced with the budget resolution for fiscal year 1999 or the manner in which the final spending bills were cobbled together.

Our task force held a series of topical hearings on budget process reform in the spring of 1998. We heard a number of very good suggestions and ideas from outside experts in budget policy, such as the distinguished former Representative Tim Penny who co-chairs the Committee for a Responsible Federal Budget; Dr. James Lee Witt, Director of the Federal Emergency Management Agency (FEMA); Allen Schick, Visiting Fellow, Brookings Institution; Rudolph Penner, the former Director of the Congressional Budget Office; and Susan Irving, the Director of Budget Issues of the General Accounting Office. Our task force also heard testimony from nine of our colleagues in the House who have a long-standing interest in budget process reform.

During the summer and early fall we began drafting legislation based on the lessons learned from our hearings. We worked in a deliberate and bipartisan manner to craft this legislation over a period of almost 3 months. As a result of our efforts, we were able to secure the support of a majority of the members of the task force on both sides of the aisle. We also drew the attention of Representatives who do not serve on the Budget Committee and won the support of respected Members such as Representative Stenholm (D-TX), Representative Barton (R-TX) and Representative Castle (R-DE).

Unfortunately, the fruit of our labor could not be harvested during the hectic closing days of the 105th Congress. Since we had crafted our bill in a bipartisan manner, we did not want it to become the object of a partisan attack from either side of the aisle. We've updated and made technical changes to our bill and reintroduced it in this Congress as H.R. 853.

Our bill is based on the assumption that the following fundamental principles should be used while developing a new budget process. Congress should adopt and conduct a budget process that:

1. gives the budget the force of law;
2. budgets for emergencies;
3. discloses the unfunded liabilities of Federal insurance programs;
4. strengthens the enforcement of budgetary decisions;
5. mitigates the bias in the budget process toward higher spending;
6. displays the unfunded liabilities of Federal insurance programs;
7. prevents government shutdowns; and
7. increases budgetary flexibility when there is an on-budget surplus.

The following is an outline of the major provisions of the bill.

JOINT BUDGET RESOLUTION

Perhaps the most important element of the Comprehensive Budget Process Reform Act is the conversion of the existing concurrent resolution into a joint budget resolution which would have the force of law when signed by the President. Under the current budget process, Congress and the President are required to agree on individual tax and spending bills but not the overall framework of the budget. Each year the President presents a detailed, programmatic budget and the Congress passes a concurrent resolution that establishes a common Congressional framework

for the consideration of subsequent tax and spending bills. The only way that the President can affect total spending and revenue levels is by vetoing individual bills. Consequently, the budget process bogs down as the President may reject individual bills because he does not concur with the overall levels on which they are based.

This dynamic was clearly in play in the 104th Congress when the President repeatedly vetoed appropriations bills in part because they were based on an overall level of discretionary spending that he found unacceptable. Finally in 1997, the Congress and the President committed to a common budgetary framework in a Memorandum of Understanding between the Congress and the President. The MOU essentially served as a joint budget resolution establishing the overall parameters for subsequent tax and spending legislation. In fact, Congress and the President have turned to such MOU's each time there has been a major budget agreement and the Congress and the President were controlled by different political parties.

Our bill was developed with the hope that we can regularly repeat the great cooperation between Congress and the President that led to the historic Balanced Budget Act of 1997. That process worked because Congress and President Clinton agreed to basic principles and a framework at the beginning of the budget negotiations process, and weren't forced to negotiate under pressure of a deadline at the end of the budget process.

If the President signs the joint budget resolution, Congress would move tax and spending bills, which would be governed by the spending limits established in the joint budget resolution. The President would still sign or veto each spending bill as it passed Congress. If the President refused to sign the joint budget resolution, Congress could quickly pass a concurrent budget resolution and operate in a manner similar to the current process.

In order to focus initial negotiations on the broad framework of the budget, the Comprehensive Budget Process Reform Act would restructure the budget resolution. The bill replaces the 20 functional categories of spending in the budget resolution with seven categories of budget aggregates: defense discretionary, non-defense discretionary, total discretionary, mandatory spending, revenue, debt, and a reserve fund for emergencies. The budget resolution would become a device for reaching an agreement on overall spending and revenue levels. Policy and distributional issues would be settled in subsequent negotiations over individual tax and spending bills.

RESERVE FUND FOR EMERGENCIES

Another key element of the Comprehensive Budget Process Reform Act is its reform of the treatment of emergency spending. In recent years, emergency spending has increased dramatically, primarily as a consequence of devastating events such as the Northridge earthquake and Hurricane Hugo. However, higher emergency spending has also been driven in part by the fact that emergency spending does not count against the statutory spending caps under current budgetary rules, making it essentially "free" money.

As was seen at the end of the last Congress in the Omnibus Appropriations Act, emergency spending is basically defined as whatever the President and Congress say it is. The Comprehensive Budget Process Reform Act sets forth clear, concise criteria as to what constitutes an emergency. These criteria, which are based upon the OMB definition of emergency spending adopted following the Gulf War, are that the spending must be for the prevention or mitigation of, or response to, loss of life or property, or a threat to national security; and is unanticipated. Unanticipated means that the situation is sudden, urgent, unforeseen, and temporary.

The more concise definition of emergency included in the Comprehensive Budget Process Reform Act should help curb some of the more flagrant examples of abuse. For example, while I agree with those who contend that the Year 2000 computer problem (Y2K) is a serious issue, it would not constitute an emergency under the definition included in this bill. Nor should Y2K be considered an emergency, we've known about the challenges the year 2000 will present for a number of years.

The bipartisan Comprehensive Budget Process Reform Act would also reduce the incentives to mischaracterize spending as emergency spending by creating a reserve fund for emergency aid, and reserve that money exclusively for emergencies. By contrast, under current law there is no limit to how much money can be spent on emergencies. The bill would require Congress and the President to set aside an amount equal to the 5-year historical average spending for emergencies. That money could not be spent unless the situation in question meets the criteria of emergency defined in the bill.

I believe there is much to commend this approach. First of all, it provides a reasonable assurance that emergency spending will go to legitimate emergencies. Second, it preserves Congress's power over the purse because it is the Congress that

determines whether a legitimate emergency exists. Third, it could relieve the Congress of the time-consuming task of finding offsets for individual emergencies because the reserve would come out of the caps. Fourth, it is based on a tried and tested mechanism for augmenting the budget for bills that provide funds for specified purposes. Since the enactment of the Budget Enforcement Act in 1990, the Chairmen of the Budget Committees have adjusted committees' allocations for such factors as continuing disability reviews, arrearages, and land acquisitions. Finally, the beauty of the reserve fund concept is that if we set aside more money for disasters than is required, that amount simply increases the surplus, because the money actually never was appropriated.

ACCOUNTABILITY FOR ENTITLEMENT SPENDING

Our bill would establish several procedures to curb the proliferation of new entitlement programs. Entitlements provide direct spending because, once they are authorized, the spending occurs automatically unless the underlying law is amended or repealed. The funding levels for these programs are determined by the number of eligible participants, the eligibility requirements and the benefit levels in the underlying law.

Despite measures in the 1974 Budget Act designed to curb so called non-controllable spending, the number of new entitlement programs has dramatically increased. According to the General Accounting Office, there were 145 more mandatory programs in 1996 than there were 10 years earlier.

The Comprehensive Budget Process Reform Act requires that any proposal for new entitlement spending, whether included in the President's budget or Congressional bills, include a justification for not subjecting the spending to annual appropriations. This will encourage those proposing new entitlement spending to at least take closer look at the programs and determine whether they really need to be entitlements.

This bill also allows Members to offer amendments to subject proposed entitlement programs to annual appropriations. It limits the ability of the House to waive this right and makes any such amendment germane to the bill. To facilitate the conversion of entitlements into discretionary programs, the bill holds the Appropriations Committee harmless for new discretionary spending that is offset by designated reductions in direct spending.

SUNSETTING AND EXPANDED OVERSIGHT

The bill includes a series of small but enforceable steps toward requiring all committees to systematically re-authorize all Federal spending programs. I take as an operating premise that no program, however important, should be immune from Congressional oversight.

The bill requires all committees to submit a plan for re-authorizing all programs, both mandatory and discretionary, at least once every 10 years. The House is prohibited from considering the expense resolution of any committee that fails to submit a reauthorization plan.

The bill prohibits the consideration in the House of any bill that creates a new program that is not sunset within 10 years. Any bill that authorizes a program for more than 10 years would be subject to a point of order. Significantly, this requirement would only apply to new programs, and neither new nor existing programs would automatically sunset if they were authorized for a shorter period.

AUTOMATIC CONTINUING RESOLUTION

We take the bold step of agreeing to an automatic continuing resolution in order to prevent future government shutdowns. Our bill would provide for an automatic interim appropriation for any program, project or activity for which an appropriation bill is not enacted by the beginning of the fiscal year. Funding would continue at the prior year's level indefinitely, or until Congress and the President are able to reach agreement on the appropriate spending levels.

I believe that an automatic CR will take away from both the President and Congress the incentive to refuse to negotiate in good faith on appropriation bills on the assumption that one side or the other will bear the wrath of the public for shutting down the Federal Government.

"BASELINE" BUDGETING

The bill takes a small step toward changing the baseline mentality that contends that any attempt to slow down the growth in spending constitutes a cut. Drawing

from a House-passed bill offered by Representatives Stenholm and Penny during the 103rd Congress, our bill requires that Presidential budget submissions, budget resolutions, appropriations reports, and cost estimates compare proposed spending and revenue levels with the actual spending levels of the prior year.

We also try to shed light on the sources of projected growth in entitlement spending which is expected to explode early in the next century. The bill requires both the Office of Management and Budget and the Congressional Budget Office to periodically report on such sources of projected growth in mandatory spending as inflation, changes in medical technologies, and program enrollment.

BUDGET FOR CONTINGENT LIABILITIES

During the Task Force hearing and discussion with GAO, CBO, and OMB, it became clear that existing cash-based, short-term budgeting and accounting procedures do not capture the contingent liabilities and other long-term programmatic costs of Federal insurance programs. Accordingly, this bill provides for a shift to accrual budgeting for Federal insurance programs, as well as other measures intended to capture the medium-term costs of proposed legislation and the long-term budgetary implications of current and proposed budget priorities.

Currently, the budget shows the short-term cash flows for such Federal insurance programs as deposit, pension and political risk insurance. Frequently, the premiums paid into the insurance programs do not reflect the program's long term costs to the Federal Government. Not surprisingly, policy makers have little incentive to take measures that would minimize the financial risk posed by these programs over the long term. There is a strong incentive for policy makers to embrace policies that provide short-term budgetary relief but exacerbate financial problems over the long run.

Building on the principles of credit reform for loans and loan guarantees, this bill requires OMB, CBO and Federal agencies to estimate the expected loss from Federal insurance programs instead of short term cash flows. Congress and the President would ultimately be required to budget each year for the expected losses from new and expanded insurance programs.

Additional changes are made in the budget process to capture other long-term costs that are not reflected the budget. Most importantly, it extends the horizon for the cost estimates of proposed legislation from five to ten fiscal years. Additionally, it requires OMB and CBO to periodically report on long-term budgetary trends under current law and as proposed by the President.

"PAYGO" REQUIREMENTS AND THE SURPLUS

We were even able to find common ground on permitting the surplus to be used for tax cuts and other initiatives if the budget is in balance without counting Social Security surpluses. Under existing PAYGO requirements, tax and entitlement legislation must be offset by entitlement cuts or tax increases. Our bill permits tax cuts without offsets so long as the Federal Government is running an on-budget surplus. Notwithstanding our agreement on this element of the bill, we may very well disagree on what the surplus should be used for whether further PAYGO reforms are in order.

"LOCK-BOX" FOR SPENDING CUTS

Our bill establishes procedures to lock in savings from floor amendments to increase the surplus. The provision is similar to lock box provisions that have passed the House with bipartisan majorities. Under the lock-box, both the caps and appropriate levels in the budget resolution are automatically reduced by the amount of a floor amendment that reduces an appropriation line-item. This mechanism effectively prevents the Appropriations Committee from reprogramming savings from floor amendments to other programs in the same or another subcommittee allocation.

Budget process reform is vitally important. Last fall the conclusion of the fiscal year 1999 appropriations bills illustrated the need for budget process reform. I am pleased our two committees have been able to work so well together in crafting the Comprehensive Budget Process Reform Act of 1999. I look forward to continuing our work together as this bill makes its way through the legislative process.

Mr. CHAMBLISS [presiding]. Thank you, Jim. In order of seniority, Ben, we will go to you next. Jim alluded to something in his testimony that I think is critical to this process, which is the bipartisanship with which this legislation was put together.

Ben, if you don't mind, in the course of your comments, you will save me a question later by just talking about the openness of these discussions and whether or not you and Jim and Dave all feel that there has been real input from both sides of the aisle and if this is a true, in your mind, bipartisan effort.

STATEMENT OF THE HON. BENJAMIN L. CARDIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. CARDIN. Thank you, Mr. Chairman. I appreciate the manner in which you have posed that question.

Jim Nussle in his final comments here has really made an invitation to all of us to join together and try to make this the best possible bill we can. That is the manner in which he conducted our subcommittee or task force during the past year. As has been pointed out, I was appointed as the Ranking Democrat, Jim was the Chair of the Budget Review Task Force.

At all times during the process, Jim made it absolutely clear that his door was open for discussion and debate, he wanted to make sure that any issue that was perceived to be highly partisan, that we got that out of the discussion, and that we stayed on target to deal with the real substance of the budget process.

He also wanted to remove it from any specific budget resolution or any specific year, and I appreciate those efforts.

I know the pressure he was under, I know the pressure came from both sides of the aisle, and he stood up to that, and I applaud him. Mr. Chairman, I can assure you that this recommendation is very much on a bipartisan basis from the point of view of the work of our task force.

I also want to underscore another point, until I think the Rules Committee scheduled their hearings and now you are scheduling your hearings, many Members haven't really focused in on our recommendations. That may be understandable. It wasn't pressing at the time. It is a difficult subject. It is not as interesting to most Members as dealing with the substantive effects of the budget rather than the process, so I really applaud this committee, and I applaud the comments of John Spratt, that we need to look at this. We need to debate it.

I am also happy to see you are not marking up until after the holiday. That gives us an opportunity to discuss some of these issues and see whether we can't improve some of the provisions. I expect there are going to be some areas where we are going to have policy differences. But I think some of the issues raised are ones in which we can improve the final bill that is recommended, I hope, to the floor and ultimately passed.

We had, Mr. Chairman, three objectives. The first was to make Congress more effective as an entity in dealing with fiscal policy of this Nation.

As way of background, I served 8 years as the Speaker of the Maryland legislature, so I take a little bit of pride in understanding how a legislature should operate on fiscal policy. When I came to Congress, I was appalled by the way our budget process works. I disagree with those that believe that this process is working. I don't think it is. Just look at our vote this past week on emergency

spending or our vote at the end of last Congress on the omnibus spending bill. That is not a process that has you and me involved in determining the fiscal policy of this country as we should. We can do better, we should do better, and our recommendations are aimed at that.

Secondly, we wanted to hold Congress more fiscally responsible for our actions. We wanted to make sure that our budget rules made sense from the point of view of doing what is fiscally right for the people that we represent.

Third, Mr. Chairman, as you have already pointed out, we wanted to make sure that our recommendations were bipartisan.

First, in the areas of making Congress more effective, I believe a joint resolution signed by the President makes us as an institution stronger; because, you see, under the current system, we pass budgets that don't mean very much, in all due respect to this committee. I served on it in the last Congress. In the last Congress we were unable to pass a budget resolution in our final year, and the budget resolution that has been passed this year, very few people believe will become the realistic blueprint for the adoption of the appropriation bills or the tax bill that ultimately we hope will make its way through Congress and be signed by the President.

So the process has us really doing an awful lot of work right now, and it is unlikely it is going to mean very much. What happens is in September or October we finally get together with the White House, and I would argue with you that the executive branch is in a much stronger position than Congress when we meet in the fall of the year to determine what the budget of this Nation should be.

That is true whether there is a Democrat in the White House or a Republican in the White House.

Congress, the entity that represents directly the people of this Nation, should have a stronger voice in the budget process. By getting the President engaged earlier, we have a much better chance in order to accomplish that.

Just look at our history on that as to how effective budget resolutions have been.

Now, I understand John Spratt's concern about delay, but let me just make two points about that. I would suggest that we waste a lot of time right now in the budget process of this country because we act on appropriation bills or tax bills or reconciliation bills that have very little chance of ever becoming law. I can remember how many years I worked on different bills, just trying to find some vehicle that ultimately would be signed into law.

We don't know that, and it is difficult in September to have much impact as an individual member on what is going to be finally included in a summit. So we waste a lot of time under the current process.

But just to make sure that we don't paralyze Congress, we have what is known as a "soft landing" on the joint resolution. If we are unable to get a joint resolution, we revert to a concurrent resolution. That is a very minor delay in the process, but we hope we will have a joint resolution. We hope to have a document signed by the President. We hope our work will be meaningful, that each of us in our own capacities on our respective committees that deal with

the subjects that are included in the budget will have a real role to play in what is ultimately signed into law.

The second part about making Congress more effective is the automatic continuing resolution. I know there are different views on that. I think by having an automatic CR, there is more likelihood that we will succeed in passing our appropriation bills on time, because a CR is a failure and we shouldn't be holding our constituents hostage.

The second major issue is to make us more fiscally accountable. Jim talked about emergency spending. The way we handle emergency spending in this institution is wrong. No one can justify this process. The bill we passed this week was not what we should have done under a regular budget process of fiscal accountability.

The process, as outlined by Jim, is one that I think has a lot more appeal to it by including it in a much more regular process, but yet understanding there will be emergencies that go beyond any planning that we can make, and for them to be considered in due course.

We have also started accrual accounting. Just test this out on your business leaders. Tell them you are on a cash basis accounting system because we are too small of an entity to move toward accrual accounting and budgeting. We start to move toward accrual accounting in the insurance programs. I think that is a step in the right direction. We have more entitlement oversight in this proposal, which that is a step in the right direction.

Lastly, on the bipartisan provisions. We limit the joint resolution, and, Mr. Spratt, if it is not strong enough, let's draft it better, because I share your concern on that. I don't want to have a document out there that can cause some problems. All we want to do is what is spelled out here, I think we are very clear in the bill: general directions to our committees, and one additional item that could be included in that, and that is the debt limit issue.

On emergency spending we have been very careful from a partisan point of view not to have it affect the caps. We think that makes sense, so we are not prejudicing what we believe are the current rules on funding emergency spending because they were not considered when we adopted the caps. We think the CR is neutral, it doesn't reduce or increase spending. That was another partisan issue.

Let me talk lastly on the surplus and whether the PAYGO rules apply to on-budget surplus. We make it clear it does apply to the off-budget surplus. I think everyone here agrees that the surplus generated through Social Security needs to be firewalled for the Social Security situation or whatever we do on that.

Last year when we worked on this proposal, we weren't really that concerned about on-budget surpluses because we didn't think it would materialize. It was our distinct impression in talking to OMB that they believed that the PAYGO rules did not apply to on-budget surplus. So let's talk about it from a policy point of view. What is the right policy?

Now, it is interesting to me that OMB believes it is OK to waive the PAYGO rules on on-budget surplus if we have an autocratic summit, but it is not OK if we use a regular legislative process in working on our budgets.

That doesn't seem to make any sense to me. The President's proposal on dealing with Social Security cannot be done within our PAYGO rules. You can't do what the President wants within our PAYGO rules. What Mr. Archer has suggested in regards to Social Security can't be done within our current PAYGO rules. Both will require changes.

Mr. Spratt is very direct in saying we are going to have to deal with changes in our PAYGO rules as it relates to on-budget surplus. So why don't we trust ourselves to do the right thing, to make the priorities between discretionary spending, between entitlement spending, between tax cuts and paying off the debt?

Now, I share Mr. Spratt's concern on making sure we deal with Social Security first. I am not going to support legislation that doesn't protect Social Security and get that done first. That is not what a process does. That is what the bills will do when we finally consider bills in this institution. I think many of us are very much on record in that regard.

So I would just urge us to try to do what is right in the process issues, and maybe—I want to make sure we protect the revenues to be there when we incur obligations. I want to make sure we pay down the debt as part of our priorities. If you have better suggestions on how to handle this, come forward and let us know. We came forward with what we thought was the best way, protecting the prerogatives of this institution to do its work, but also understanding that we do need budget discipline.

So I would hope as this process moves forward that the invitation that has been extended both by the Chair, Ranking Member, and by the two of us, the three of us, will be accepted. Sit down, let us look at these different provisions, let us engage our colleagues in this debate, because we can do better in a budget process. I believe that this legislative proposal would move us forward in the right direction and we hope it will be improved and move forward during this term of Congress.

Mr. CHAMBLISS. Thank you very much, Ben.

[The prepared statement of Benjamin Cardin follows:]

PREPARED STATEMENT OF HON. BENJAMIN CARDIN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MARYLAND

Chairman Kasich, Congressman Spratt, it is a pleasure to return to the Budget Committee this morning to testify on reform of the congressional budget process.

It is certainly time for a review of the process by which we in Congress, as well as the executive branch, make budget decisions. It has been a quarter century since the creation of the congressional budget process, including the Budget Committees, the Congressional Budget Office, and the existence of a budget resolution.

We began this process in the House more than 1 year ago when Chairman Kasich created the Task Force on the Budget Process. I was honored when John Spratt appointed me as the ranking Democratic member of the task force, and I took the responsibility seriously.

The deliberations of the task force was marked by a truly bipartisan approach. I believe this approach is crucial to the consideration of these issues. While we have strong partisan differences regarding the substance of budget policy, I believe we must seek to keep the budget process free of partisan biases.

There is nothing inherently Democratic or Republican, liberal or conservative about supporting a budget process that improves accountability and gives the American people an accurate and clear picture of the Federal budget. Six months of hearings on a wide range of issues was followed by bipartisan consultations and discussion. As a result of those efforts, Congressman Nussle and I introduced the Comprehensive Budget Process Reform Act, H.R. 853.

The bill Rep. Nussle and I introduced proposes a number of important reforms. I would like to highlight a few of them for you.

We stand at an interesting time in the evolution of the congressional budget process. On one hand, our fiscal outlook is stronger than it has been in decades. When we contemplate the prospect of trillions of dollars of budget surpluses over the coming years, on the heels of the largest deficits in our country's history, there is reason for satisfaction over the direction of fiscal policy.

On the other hand, we have seen troubling failures of the congressional budget process. In the past few years we have had government shutdowns, gridlock between the executive and legislative branches, and the breakdown of the process in Congress. These events demand a careful review to determine how we can do our work more efficiently.

The legislation we have introduced offers protections against future recurrences of the problems that have arisen under the existing system. One such reform is that we propose that the concurrent resolution on the budget be transformed into a joint resolution, requiring the signature of the President.

This change would bring the President into the budget process earlier in the year. Under the current system, after submitting a budget proposal in February, the president withdraws from the process. He does not fully engage until the final negotiations on budget reconciliation legislation and the appropriations bills in the days leading up to the start of the new fiscal year. The result, as we have seen too often, is the reality or the threat of government shutdown.

This proposal would require Congress and the President to resolve their differences much earlier in the legislative year, thereby helping to avoid crisis at the end of the fiscal year approaches. The evidence that there is a need for a new approach is clear in the past 2 years.

Last year, as you know, the Congress failed to adopt a budget resolution. The breakdown in the process led to an endgame in which the Federal Government's fiscal decisions were rolled into one massive omnibus bill, which Members were forced to vote without having had the opportunity for a careful review of the provisions of the bill.

This year's budget cycle has offered a new variation of the failure. While Congress adopted a budget resolution on schedule, it did so by narrow partisan margins. I respectfully submit that the policies envisioned in the budget cannot be achieved without the President's signature on the appropriations bills or the tax and mandatory spending changes, and it is unlikely that will happen. By bringing the President into the process earlier, we would avoid last-minute deals that frequently meet with the strong disapproval of the American people.

An additional provision of this legislation that is designed to guard against the uncertainty and instability of future government shutdowns would provide for an automatic continuing resolution. This proposal addresses the situation in which any of the annual appropriations bills has not been enacted by the start of the fiscal year. It provides that in that circumstance, the agencies covered by the appropriation will receive the same level of funding they received in the previous year, until such time as the regular appropriation bill is enacted.

It is important to point out that this provision does not prejudice the deliberations of the Congress. An automatic CR provision can only work if it is neutral in effect. That is, it should not be a tool that either increases or reduces spending for the affected agencies.

The automatic CR has generated significant concern about the dangers of putting the government on auto-pilot. I understand those concerns. Decisions on the basic spending levels of the government should be made by the people's elected representatives. When this bill comes to the floor, I would support a clean up-or-down vote on this provision of the bill.

In addition to these broad changes in the budget process, the bill also addresses a number of more discreet issues. We propose an overhaul of the process by which we fund emergencies. For too long, the Federal response to emergencies has been funded almost entirely through supplemental appropriations. We should bring basic planning principles to bear on this area of Federal spending.

We will always have occasions that will demand supplemental appropriations to respond to natural disasters and other emergencies. But we can do a much better job of including emergency funding in the regular budgetary process. We propose to do that by using a rolling 5 year average of emergency spending. Importantly, this change would not affect the current caps.

In addition, we provide, for the first time, a definition of emergency. We have all been troubled by the inclusion of non-emergency items in emergency supplemental bills. As recently as last week, we passed an 'emergency' spending measure that included funding for many priorities which would not satisfy the criteria established

for emergencies. By defining the term, we can help limit the spending items that are included.

I would also like to call special attention to one of the more far-reaching and innovative proposals in our bill. As you know, the Federal Government, unlike virtually every other large organization in this country, reports all its outlays and receipts on a cash basis. While this approach accurately portrays some aspects of the budget, it also creates significant inefficiencies and distortions in the policy decisions we make.

Our bill proposes the application of accrual accounting principles to certain Federal insurance programs. It simply makes no sense for us to continue to ignore the long-term budget consequences of our actions. When we issue a flood insurance policy, we have a reasonable expectation of the costs that will ultimately be imposed on the treasury. We should enter that liability on our books then, recognizing that the premiums paid on the policy are obligated for the purpose of paying future claims, rather than providing a source of easy money for making that year's bottom line look good.

There are several other important budget reform provisions in the bill which address the sensitive issues of enforcement and accountability. They are the result of extended give-and-take, and I look forward to further discussions as we consider this legislation.

One provision that especially requires discussion is the bill's relaxation of the PAYGO rules in time of on-budget surpluses. For the past 9 years, as we have struggled to dig our way out of the massive deficits of the previous decade, we have been governed by the PAYGO rules. The rules were adopted in the 1990 budget agreement as a tool to impose fiscal discipline in a time of \$300 billion deficits.

This bill would settle a question that was almost unimagined at the time the PAYGO rules were adopted. The question of whether the PAYGO rules were intended to apply during a time of budget surpluses was not relevant in 1990. In FY '91, the on-budget deficit was \$321 billion, the off-budget, or Social Security, surplus was \$52 billion, and the unified budget deficit was \$269 billion. There wasn't much question about whether to apply PAYGO in time of surplus.

H.R. 853 would waive the PAYGO rules in times of on-budget surpluses. It would not affect surpluses attributed to Social Security. Let me point out first that when the Task Force considered this provision, we were working under the impression that this was OMB's position. I understand that OMB has now issued a statement to the contrary effect.

This provision of the bill has generated considerable concern on my side of the aisle that it will result in the passage of massive tax cuts and drastic reductions in discretionary spending, or deep sequestration of entitlement spending. I would vigorously oppose such policies. The existing caps on discretionary spending for both domestic and defense spending are unrealistically and unacceptably low. Our country's two hallmark entitlement programs, Social Security and Medicare, are both in need of new resources. Other mandatory programs will not stand significant cuts.

The point of the provision waiving the PAYGO rules in times of on-budget surpluses is to allow the Congress to work its will without artificial procedural restraints. The fact is that both the President and the Republican leadership have every intention of using the on-budget surpluses for entitlement spending and/or tax cuts. The President's Social Security reform proposal is built on the prospect of using significant general revenues to bolster the long-term stability of the program. Similarly, Chairman Archer has put forward a plan that would consume almost all the on-budget surpluses for tax cuts designed to preserve Social Security.

Opposition to this provision of the bill is based on the notion that those decisions can be taken only in the context of a negotiated budget settlement, or summit, but not by Congress acting in the normal course of legislative business. I reject that view. Members of Congress are willing to exercise responsibility in their votes.

The budget process, beginning in 1974, has benefited by the expanded capacity and involvement of the Congress. The legislation Rep. Nussle and I have introduced will further improve coordination between the legislative and executive branches. It will help reduce the threat that a breakdown in the budget process leads to a shutdown of the government. It will improve the management and accountability of Federal resources. Perhaps most important, it will restore responsibility for the tax and spending decisions—the constitutional power of the purse—to the people's elected representatives, where it belongs.

I appreciate the opportunity to appear before you today, and I would welcome any questions you might have.

Mr. CHAMBLISS. Now, Mr. Minge. Dave, I know better than to think you are here just for the glory. I know that anybody who is

smart enough to figure out the dairy program is very capable of writing a budget process bill. So I know you are the real brains behind this. Dave, we look forward to hearing from you.

**STATEMENT OF THE HON. DAVID MINGE, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. MINGE. Thank you. I would like to talk about the dairy program now.

I would like to join in the comments made by my colleagues and just refer to the testimony that is prepared and submitted to the committee by reference, and at this point proceed to make a couple of very basic points.

First, this effort is much like campaign finance reform. It is very easy to criticize everybody else's product, but it is very difficult for us as a body to move ahead. It is something that is frustrating to work on because no matter what one comes up with, it is always criticized.

In this context I would like to speak especially to my colleagues on the Democratic side. I think it is important to recognize that this proposal contains in it many compromises that were made by the Majority to accommodate criticisms of the budget process as we have experienced it in the last 4 years, where we have been unhappy as a Minority with some of the things that the Majority has done.

So these accommodations, if you will, to our criticisms, are points that we should not overlook. Let me just quickly mention five of them.

It would permit the Minority to raise a point of order to enforce the budget resolution to unreported bills, bills that come out of leadership task forces and other sort of sources within the body. This is something that Mr. Moakley had recommended and urged in the bill that he introduced, and I know it rankled many of us on the Democratic side, especially in the 104th Congress.

Secondly, to fully phase in the accrual or the risk assumed budgeting for Federal insurance programs, again, this is something that we on the Minority side, Democrats, have urged.

Third, the continuing resolution, the automatic continuing resolution. As I recall in 1995-1996, the proposal was that it would be at 95 percent of the prior year's expenditures, and we were outraged. Well, this proposal does not continue that 95 percent position. Instead, it is funding at the prior levels of expenditure 100 percent.

So there is an accommodation here, again, to the point of view that we were urging in that troubled year of the 104th Congress, troubled session.

Fourth, the use of the on-budget surplus and the changing of the PAYGO rules allows for that surplus to go to entitlement expansion or enhancements. It is not just tax cuts.

Now, I agree with Mr. Spratt that we ought to have more discipline as to how we use that surplus, and I would like to see it used for debt reduction. But I recognize that this particular proposal is at least evenhanded. The surplus could be used either for tax cuts or for entitlement enhancements, and that is something that I know many of my colleagues on the Democratic side would urge.

Finally, this proposal takes a whack at the, as I understand it, the so-called Byrd rule, which prevents the Senate from raising points of order against provisions in a conference report that the Senate deems extraneous to reconciliation. I know that the former Chairman of this committee, Martin Sabo, was very upset with that prerogative on the Senate side. So we attempt to address that, and hopefully the Senate would at this point recognize that such an adjustment is one that is long overdue.

I make these points not to say, again, that this bill is the best possible budget reform proposal that could be drafted, but instead to say it represents a bipartisan, evenhanded set of reforms that all of us ought to very seriously study and hopefully we can get behind.

If there are improvements that can be made to it, and some of the points you made, John, are improvements that I concur with, let's try to convince our colleagues that these improvements should be accepted as a part of a final reform package. But like the campaign finance reform debate, let's not let the improvements be the occasion to defeat a proposal. I think that that would take us in the wrong direction.

Thank you.

Mr. CHAMBLISS. Thank you, David.

[The prepared statement of David Minge follows:]

PREPARED STATEMENT OF HON. DAVID MINGE, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MINNESOTA

Mr. Chairman and fellow members of the committee:

Thank you for allowing me to testify today on H.R. 853. I want to commend the Chairman for forming the Budget Process Reform Task Force during the last Congress, which provided a helpful forum in which to discuss budget process issues. I also wish to congratulate Mr. Nussle and Mr. Cardin on their efforts in crafting this bill, and for the hours of work they devoted to hearings and discussion of the provisions.

I would like to begin my remarks today by reaffirming that this bill is truly a product of bipartisanship. While there are items in the bill that I might change (and I am sure my colleagues can say the same) if offering the bill myself, this is a bill that deserves support, as well as swift passage by the House of Representatives.

The bill has many strengths, as my colleagues have outlined in their testimony. Rather than duplicate their statements, I would like to comment on a few provisions that I find particularly important. The first that I would like to highlight is the emergency spending provision.

Unfortunately, the current emergency designation has become a way for Congress to skirt the discretionary caps and disregard the Pay-As-You-Go (PAY-Go) Rules. These important enforcement tools, along with a strong economy, have put a Federal budget surplus within reach. H.R. 853 offers a needed solution to budget-busting supplemental appropriations bills that undermine budget discipline. While much of the recent emergency appropriations bills have gone to fund legitimate emergencies, Congress is often tempted to throw in spending that ought to be allocated in regular appropriations bills. By creating an emergency reserve account, H.R. 863 would force Congress to stop misusing the emergency spending designation by using a cap based on the 5-year rolling average for emergency spending.

Another important component of H.R. 853 is the shift to "accrual" accounting for certain Federal insurance programs. While some Administration officials have expressed mild reservations about the implementation of this provision, I believe it is an important step in the right direction. Current estimates about the liabilities of these programs are unrealistic, and this is a needed change to the budget process. I believe it is far better to use an imprecise estimate of the right concept than a solid estimate of the wrong one.

I will admit that I am a bit concerned about the relaxation of the PAY-Go Rules with regard to on-budget surpluses under the bill. I appreciate the need for tax cuts. Indeed, the Blue Dog budget which I helped write outlined a plan that would have

required some loosening of the PAY-Go Rules. It would be my preference, however, to retain this budget enforcement provision for half of the on-budget surpluses, relaxing the PAY-Go Rules to use only half of the on-budget surplus for tax cuts or spending, with the other half used to reduce the debt. But I recognize and want to commend the Chairman and Ranking Member of the Task Force for the spirit of compromise and bipartisanship that went into this bill. I am not willing to temper my support for the bill as a result of my doubts about this one provision, because I am certain that most of the bill's cosponsors have made modest concessions on ideas that are equally important to them. I believe this productive climate has resulted in a solid, meaningful measure that deserves wide support.

In closing, I would like to address some of the concerns that have been raised about this bill. While each provision of this bill may have a predictable downside, one must always address whether a proposed improvement is worth the risk. I believe there are some who think nothing is wrong with the current system, so there can be no risk worth taking. Others, like me, would disagree that the current system is working just fine.

If you truly believe we need budget process reform, there is very little, on balance, to criticize in this bill. The bill is a product of a bipartisanship at its finest, and was an honest attempt to improve the budget process.

Those who do not agree that we need reform will oppose this bill, and they should. But their concerns ought to be measured in light of their opposition to any changes at all. We must debate the merits of the bill, especially in comparison to the current process and in relation to other options for reform. But we should not hide the debate about whether reform is needed inside the debate about the merits of this bill.

Thank you, Mr. Chairman.

SPECIFIC PROVISIONS IN H.R. 853 OF INTEREST TO REPRESENTATIVE MINGE

PROVISIONS OF SPECIAL INTEREST TO DEMOCRATS

The following provisions were either done at the request of Democrats, taken directly from Democratic bills, or primarily intended to benefit the minority:

- Provide for fall back concurrent resolution if the joint resolution is vetoed and not overridden.
- Permit the minority to raise points of order that enforce the budget resolution to non reported bills (Moakley bill). Eliminates a key loophole that the Leadership uses for bills that breach the allocations and aggregates in the budget resolution in order to avoid waiving the Budget Act.
- Fully phase in accrual (or risk-assumed) budgeting for Federal insurance programs. Initial proposal did not fully integrate accrual concepts into the Federal budget without a subsequent act of Congress.
- Permit minority amendment to cap-adjusted programs (i.e. IMF, continuing disability reviews) by providing for an automatic adjustment of the 302(b) allocations). Currently the minority is prevented from offering amendment to these programs until the Appropriations Committee revises the 302(a) allocation which is long after the bill has passed the House.
- Establish the level of the automatic continuing resolution at the prior year's levels rather than 95% of the prior year (or lower of House and Senate levels or even lower level for unauthorized).
- Prohibits budgetary projections from including Social Security in the budgetary aggregates (Rep. Minge).
- Exclude existing entitlement programs from point of order against legislation that does not have to be reauthorized at least every 10 years.
- Allow on-budget surplus (i.e. non Social Security) to be used for both tax cuts and entitlement expansions.
- Require cost estimates and other budgetary documents to compare proposed levels to corresponding levels from the prior years (Reps. Penny, Stenholm and Minge).
- Require the enactment of additional offsets for tax cuts if the on-budget surplus fails to materialize (also applies to entitlement increases).
- Require annual reports on long-term budgetary trends for major entitlement programs (Kerry Commission recommendation).
- Prevent Senate from raising a point of order against provisions in a conference report that the Senate deems "extraneous" to reconciliation (Rep. Sabo).
- Enable the sponsors of floor amendments to designate savings from amendments for deficit reduction (Reps. Schumer and Crapo).

Mr. CHAMBLISS. Let me just say that Ben said it directly and the other two of you have alluded to it, which is the fact that your

process bill will certainly not only make Congress more accountable, but it will put us in the loop more and it will change the way we do business around here. I don't think anybody disagrees, Ben, with what you said about the way we pass supplemental bills. That is just wrong. It is not fair to the American people that we do things that way. Obviously it appears that your bill's chain of command, will change that and it is going to change it for the better.

I am hearing all of you say that you don't consider this to be a perfect bill. You are still willing to listen to anybody on this committee or any other Member of Congress over the next several days, couple of weeks, whatever it may be, until we take this bill up. And I would just encourage everybody who has an idea to sit down with them collectively or individually and let's see if we can't develop further what they have come up with to this point or at least give them your ideas and suggestions. Don't wait until we get to the markup and criticize them. That is a good point, David.

At this time I yield to Mr. Spratt for any questions he may have.

Mr. SPRATT. Well, I have had the opportunity to talk with Jim Nussle and Ben Cardin and to some extent David Minge, so I will let other members ask questions. Let me just for clarification ask, do you agree the bill as it is currently drawn provides that the discretionary spending baseline for projection purposes is assumed to be frozen or flat at the level of the last year for which the cap is established?

Mr. NUSSLE. Assuming that new caps are not established, that is correct.

Mr. SPRATT. So this would, wouldn't you agree, artificially inflate the appearance of the on-budget surplus in many cases?

Mr. NUSSLE. Well, it depends. See, I think it is a—the point you are making is a good one, and it depends on how you look at the future. If you look at the future and assume that the Congress of the United States is going to cut education and cut farm programs and cut Medicare and cut Medicaid, if you assume that that is automatically going to happen when that day comes and that all of that money would then therefore go in a large tax increase, then I suppose you can continue to assume that that is what it will do.

But I don't assume that, and I don't think anybody realistically does. For rhetoric purposes, you can make that comment. Realistically, we all know, as has always happened, that some agreement between the Congress and the President would change that future. All we are suggesting here is we want to be realistic. Without that cap, that is exactly what would happen. Without any discipline into the future, that is exactly what would happen. Nothing would change.

We want to illustrate for not only the Congress and the President, but for the American people, that we are maybe behind, and hopefully what this could do is apply pressure, could apply pressure to an agreement between the President and the Congress to make new adjustments to those caps so that in fact what we are both discussing here would not be a reality in the future.

Mr. CARDIN. Let me just give a view on this. We drafted that with the assumption that there would be budget caps in place before Congress would be using projected surpluses based upon baselines beyond 2002. That was the assumption that we made.

I don't think any of us want to see Congress encumber surpluses projected on baseline freeze for programs such as tax cuts or additional entitlement spending. So I share your concern on that. But it was based on the assumption that the budget resolution that would be first considered would deal with the caps beyond 2002.

Mr. SPRATT. With respect to the CR, I think it was Mr. Nussle who said that having an automatic CR would spare us from the embarrassment of shutting the government down again. But in addition, it would shield us from the embarrassment of having to acknowledge that we hadn't done our work, we had not addressed spending for the next year and pared back those things that weren't justified and provided for increased spending in those areas where there could be justification. Consequently, it would take away some of the urgency and compulsion for us to make compromises and get the work for the year done and put it behind us. Instead, we would always have this to fall back upon. It might become sort of the default mechanism for a number of different appropriation bills.

I could easily see, for example, the foreign aid and operations bill becoming just a CR every year. Does that concern you? Is that a concern of yours, too?

Mr. NUSSLE. You are correct. As you know, we have operated under continuing resolutions many times in the past for certain appropriations bills. That does not, however, mean that it would be automatic for all appropriation bills.

When you say it could for us be a shield, who is the "us" you are talking about? It won't be for me in those areas where I wanted to increase those priorities or in the areas where I wanted to make tax changes. It wouldn't be for, let's say, the people on your side that have priorities for spending increases. So I think a majority of us would suggest that that would be failure, and hopefully a majority of us every year would suggest that that is failure. It is that failure, not failure necessarily to the American people, because, you are right, if the government doesn't shut down and we all go home on September 29th or whatever, full well knowing that we have a continuing resolution, certainly that might be a shield for us.

But if you were trying to increase a priority, if you were trying to change a focus or have a new program or a new entitlement or change the Tax Code, that would certainly be failure. And my guess is, based on the amount of requests that the Appropriations Committee has received already this year from Members on both sides, that would be a failure for a large majority of this Congress.

Mr. SPRATT. One other feature, and then I will let others ask questions, is the lockbox which we voted on the floor for. I think I probably voted for various versions of it, but with some apprehension, to be quite honest about it. As I read your particular lockbox, I get apprehensive too.

Let me paint a scenario as an example. The House could on the floor knock out an item in the energy and water appropriations bill for, say, a water project on the Sacramento River in California, and the Senate could knock out a project for the Tennessee River, the same amount of money, same bill.

As I read your bill, before the conference even started, there would be entries to the so-called lockbox ledger of, let's say it is

\$500 million each project. There would be a \$500 million entry in both sides, and those two would average out to be \$500 million. There would be, therefore, an automatic deduction in the level of expenditure for that particular conference committee.

There may be no meeting of the minds whatsoever between the House and the Senate. The Sacramento project might get funded, the Tennessee project might get funded, but they would have \$500 million left to take out of their hide, not only that year out of that bill, but then that \$500 million would be deducted from the discretionary spending cap for as long as there is a cap.

That strikes me as anomalous, something we wouldn't want to see happen, unless there was a meeting of the minds to take it out. Even then I am not sure we would want to extend the amount of money indefinitely into the future.

Do you have any concerns or problems about this mechanism?

Mr. NUSSLE. First of all, you are technically correct, if the amendment on the floor doesn't specify where that money would go.

Mr. SPRATT. I am assuming it would be designated for the lockbox in both houses.

Mr. NUSSLE. There has been another alternative used more often than that, and that is the money is directed to another priority within the same appropriation bill. If that occurs, then in fact you don't lose the money from the cap and it could be—that adjustment could be made later on. Let's assume you are correct; it is undesignated. You are correct then still that that money would not be there at the conference at the end of the day.

This is, quite frankly, one of the areas that we had quite a bit of discussion about. We want to be able to allow Members on the floor to work their will without just assuming that the appropriators have the ultimate say of the 302s. This is one of the ways we were trying to achieve allowing Congress to work its will within the 302(b) allocations without giving them a resolution up front.

It is probably not perfect, but we had quite a bit of support throughout the Congress on this provision, and that is why we placed it into the bill. I think Mr. Minge was one of the authors. Maybe he wants to comment on it.

Mr. MINGE. I think one of the fears is that the House and the Senate and the conference committee have worked a fair amount of mischief in dealing with the good intentions that might arise in both bodies, and that having a provision structured the way it is will make the conferees much more sensitive to their responsibility to work through the wills of each body in the final conference report and actually observe the lockbox principle, because it is going to place, whether it be the appropriations process or some other committee in Congress, in a rather delicate position if they don't pay attention to what is happening based on the cutbacks and the lockbox commitment that arose in each body.

So I think there is sort of an enforcement concept built into it, and that has, I think, a positive side to it.

Mr. SPRATT. Thank you. And, David, I want you to explain the dairy program to me someday.

Mr. NUSSLE. If I could interrupt one more moment, just to clarify one thing, the amendment on the floor by the Member introducing

a cutting amendment could also designate, let's say, the \$500 million cut from the Sacramento River project would be cut, but that the appropriators would not lose that allocation, would not lose that money from their allocation. It could be directed as a cut, but they would not have—they would have money left over. So there is a third alternative.

Mr. CHAMBLISS. One other thing that occurred to me, has the White House been involved in your discussions at all?

Mr. NUSSLE. They declined to testify when we were holding task force hearings. However, they were consulted on the insurance provisions. We did have administration officials that came down; for instance, James Lee Witt from FEMA. I don't know if you had any other specific contacts. But I don't know if anyone took it seriously, quite honestly, to start with.

That is the reason why people have woken up today and said Republicans and Democrats can agree on the way the budget ought to be done. This is interesting. So I think there has been a renewed interest in this as a result of the product itself. But during the process of coming up with this product, they declined to get too involved in this.

Mr. CARDIN. I heard from the White House on some of the provisions. I think they have been rather negative on budget reform process. My personal read on it is that they sort of like having the upper hand.

Mr. CHAMBLISS. Mr. Shays.

Mr. SHAYS. Thank you. I just want to congratulate you, Jim, Ben and David, for what you have done, and say one of my hopes had been that given that we had a Congress that is pretty balanced between Republicans and Democrats, we both would be able to think as Majority and Minority. I mean, Republicans could be in the Minority, and how would we want to function under that? Democrats could be in the Majority.

I am concerned with the criticism that the automatic CR reduces the President's leverage in the end-of-the-year budget negotiations. My reaction is you could have a Republican President, and Democrats should realize that there are reasons why you don't want a President to have this kind of overextended power.

The elimination of the baseline budgeting is the same. We should take into consideration inflation in current services. Take it into consideration but know you are going to be spending more money.

But I want to say the creation of the joint resolution, the criticism that it needlessly delays the process, I think it puts it up front, because right now we are in a bind. We are in a bind. We know the President is going to want to spend more money. We also know that the President is going to want to spend more money in certain areas. Why don't we know that up front and let's have an agreement? If the President wants to spend more money here, we want to spend more money here or cut here, have an agreement, and then really have a realistic debate when it goes before the appropriators.

Admittedly, it gives the President a disadvantage, because he has to come up front. He is a Democrat now, but it may be a Republican. I just hope we can kind of put that behind us and get on

with it. It is a comment. I would yield the rest of my time to Mr. Smith.

Mr. SMITH. Thank you. Part of my concern, is how much more clout this gives the President of whichever party. Congress has lost control of the purse strings, to a great extent, almost completely. If we are so fearful that government might be shut down that we have to compromise like the \$20 billion supplemental that we did last fall, there is a problem.

So I am looking at roughly 16 percent of the budget in the 12 appropriation bills, not including defense, that we still have control over, but even that control is somewhat dissipated. So I am concerned that requiring the President's signature might reduce even further Congress' ability to guide spending.

I would like to especially ask questions relating to the debt limit and Social Security. I have been very concerned in our existing rules that we automatically pass an increase in the debt limit. If the budget resolution calls for more spending, it could be accommodated by an increase in the debt limit. So we repeal what used to be Rule 49. I think it is Rule 20 or 21 now. That is repealed. But in its place we put something almost as bad.

On page 8, I see line 16, we say that we can include in this whole joint resolution an increase in the debt limit. So my preference, of course, would be to have that more prominent, out front, so we have to be bold and more up front in increasing the debt limit.

If you care to respond to that, good. Otherwise, I will proceed with my next concern.

Mr. CARDIN. It has to be reported from the Committee on Ways and Means and would be voted on. So you are not avoiding a vote, if that is what you are concerned about.

Mr. SMITH. It would be included in the joint resolution as I read it.

Mr. CARDIN. It could be. It doesn't have to be. I am not sure I understand the difference, why you would be concerned about it in a joint resolution versus in the final reconciliation bill that is voted on.

Mr. SMITH. That is a good point. I am a little concerned about both, to the extent it clouds the decision on the debt ceiling and puts it aside as a less prominent or dominant concern.

Mr. CARDIN. To answer your question, you should understand when you approve a particular budget, that is what you are approving. It is part of the consequence of the budget that is on the floor. It makes more sense to include it in the budget resolution than it does in the reconciliation bill, which is sort of after the fact and it gets buried. Here you are dealing with it up front where you have a chance to do something about it if you don't like it.

Mr. NUSSLE. Could I also jump in? Because I know this is an important point to the gentleman from Michigan. If you put it in the reconciliation or the continuing resolution, wherever you put it at the end of the year, omnibus bill, it is buried in about 1,500 pages. If you put it in a joint resolution, right here, it is right on the front page.

Mr. SMITH. You haven't totally satisfied me, but I will move on.

Mr. NUSSLE. The difference is you know what you are voting on. Most people don't know in the omnibus bill or a reconciliation that

it is in there. That is my only point. I think it is highlighted differently.

Mr. SMITH. That is a somewhat good point.

Otherwise, let me just say, on page 25, it says, notwithstanding any other provision of law, the disbursements to Social Security cannot be part of this joint resolution and shall not be counted as outlays.

I haven't studied this enough, but I would like to be comfortable that, starting at the estimated time in 2013, that when we have to start paying back to the Social Security Trust Fund, when it becomes an expense from, if you will, the general fund, somehow I want to be comfortable that that doesn't preclude having an appropriation out of the general fund to cover what is owed in the Social Security Trust Fund.

Mr. NUSSLE. Which it wouldn't.

On your first point, that is current law. It just would now apply to a joint resolution is all we are suggesting.

Mr. SMITH. Yes. Well, maybe that is true.

Mr. NUSSLE. That is the only change we made on that particular page.

Mr. SMITH. It just says, no disbursements from this joint resolution can be used for Social Security. So do we technically say that any disbursement to pay back the trust fund is not a disbursement from the general fund?

Mr. NUSSLE. Why don't we get back to you on that? Let's research that and find back. It is a good question. I don't know right off the cuff.

Mr. SMITH. I yield back.

Mr. CHAMBLISS. Mr. McDermott.

Mr. McDERMOTT. I thank the task force for their efforts.

There is a bit of historical revisionism going on here. People are now worried about giving the President too much power. But this was the Congress that wanted to give the line item veto, and as soon as the President had it, they didn't like what he did with it. So I think you have to be careful and think of swords cutting both ways.

Mr. SMITH. If the gentleman will yield, I didn't vote for the line item veto.

Mr. McDERMOTT. Neither did I.

I think this automatic CR is sort of an interesting sword. I was thinking to myself, if I look as a physician at what happened, why are we worried about the budget process? What is it we don't think works?

Well, we had the government closed down, and last year we didn't have a resolution—that is because one party tried to do it all inside of their own party. I liked the CR, because with President Gore and the Democrats in charge of the House of Representatives, a minority of the Democratic Party will not be able to close the government down and use that leverage to stop the government from operating. I think that the minority inside the majority party is as much to be feared as the President. I think you have to think how your legislation is actually going to work.

So I kind of like your automatic CR, because we are going to go ahead no matter what.

What does worry me is the President setting high expectations. I can't figure out from this process who says how much money there is going to be out in the next year.

But if you set it up high and then calculate your tax breaks and set them out there and then the money doesn't come in, the automatic sequester that, from my reading of this bill, comes out of Medicare and student loans and crop supports and the social service block grant, when I think about putting us on automatic once we have had somebody give us a high-flown estimate, then we give the tax breaks based on that, and if it doesn't work, we got to cut the entitlements——

Do I understand how this thing would work? Is that your understanding of what would happen? If we put a budget resolution together, is that your understanding? That had high estimates, that then——

Mr. CARDIN. Not a budget resolution. If we put a bill on the floor that would accomplish that, it would have to take legislation.

Mr. McDERMOTT. Would the resolution itself do that?

Mr. CARDIN. No, the resolution is direction to the committee. It is what we finally enact into law.

Mr. McDERMOTT. If the committee acted on the basis of that resolution.

Mr. CARDIN. If there is policy enacted under current budget rules or whether this is changed and we don't comply with the requirement on revenue, there is a sequestration. That is the current enforcement mechanism that we put into law. So if we do not comply to what we have, if the revenues don't come in the way we expect it to, then you run into a sequestration problem.

Mr. McDERMOTT. What this does is to repeal the PAYGO restrictions on the use of on-budget surplus. It opens it up, loosens it up.

Mr. CARDIN. Again, I would say that we were——no one envisioned what we were going to do with surpluses. When we passed the PAYGO rules, it was very clear from all the discussions at that time that the PAYGO rules were to deal with deficits and to deal with off-budget potential surpluses. But no one envisioned how the PAYGO rules would work when we had on-budget surpluses when we passed this in the 1990's.

You raise a good question, and that is the point I tried to cover in my direct testimony. How should we handle on-budget surpluses? If you think these provisions—that we need more budget discipline, come in with a suggestion. But I don't think anyone on this committee is suggesting that every dollar of on-budget surplus must be used for deficit reduction. I don't think anyone is suggesting that. That is what PAYGO would tell us. I don't think that what is being said to us.

Mr. McDERMOTT. You are saying that now that we have a surplus, we can loosen up on the PAYGO rules. Because the CBO gave us a letter in 1997 saying that the PAYGO applied to the on-budget surplus as well. When the task force——

Mr. CARDIN. When did they give you that letter?

Mr. McDERMOTT. October 29, 1997.

Mr. CARDIN. They gave you a letter that PAYGO rules apply to on-budget surplus? Who gave you that?

Mr. McDERMOTT. OMB. You are saying now that we have a surplus we don't have to be so tight with the PAYGO.

Mr. CARDIN. I am saying the PAYGO rules will not work for on-budget surplus. If we do not change the budget rules, we will be waiving PAYGO on the use of the budget surplus in every Congress. We will not adhere to the PAYGO rules for on-budget surplus. That is clearly the President's intent, it is clearly the Republican leadership's intent, and I would suggest it is also the intent of the Democrats in the House and Senate.

Mr. NUSSLE. If I could just add, part of our purpose in adding this in here in a little bit more realistic way was actually to extend PAYGO, because, as you know, it expires. We thought that part of the reason we found ourselves in a surplus is because we had some of that discipline, but we wanted to extend it in a responsible way. I don't know if—I know that doesn't entirely get to your point, but it does leave open the question of whether—of how that surplus can be spent.

It is just as likely that a Congress, depending on who is in the majority, as the gentleman clearly stated, that that surplus would be spent for spending—used for spending, any more than it would be used for tax cuts.

Again, depending on who is in the White House, that discussion would have to happen, under our joint resolution, in order for that final determination to be made. Otherwise, it is not used for anything. If there is a train wreck, it is not used for anything.

So all we are saying is if there is a vacuum or—if there is a vacuum, we know how it is done. But if we can create an agreement between the Congress and the President, let's at least get Social Security off the table. The rest of it, let's have a good discussion about it. Like minds may disagree—or great minds may disagree. Like minds would agree, but great minds might disagree. But at least let's have that separate from an automatic process that would direct where that goes.

Mr. McDERMOTT. You want to not take Medicare off. You would take Social Security off but not Medicare?

Mr. NUSSLE. Part of that is because we knew there was more direct opportunity to use that surplus for Medicare than the Social Security Trust Fund.

Mr. MINGE. If I may also address the question you raised, Jim, the problems that we maintain under the PAYGO rules are just as apt to arise out of an expansion of the entitlement program if there is a surplus. That program may cost more than anticipated, or it may be that our other government costs would be more and we would not have the surplus we hoped for when we enacted the entitlement expansion. That would trigger the sequestration. So this can come from both directions.

From what I have seen in this body, I think that people are just as much tempted to expand entitlement programs as they are to pass tax cuts.

Mr. McDERMOTT. So Medicare would get so big it would just take up the surplus and therefore would trigger a cut on itself?

Mr. MINGE. Or on the whole budget. A scenario of an expansion of an entitlement program, just like a tax cut triggering a sequestration because of the budget problems, I think is something that

haunts us. It is not just one way, it is both ways under this. I don't think any of us would be comfortable with the sequestration for the reasons you mentioned. So the sequestration is only a viable option to those that would like to bring the temple down on top of us. Hopefully, there are not a majority in Congress that are of that perspective.

I think the point you are raising and that Mr. Spratt raised, which is the same point, just earlier here, is one that we ought to go through and see if we can't improve this product so that it is best designed to deal with the type of eventuality that you are asking about. I think it is a valid point, and I think we ought to strengthen this to try to meet it as best we possibly can.

Mr. McDERMOTT. Mr. Chairman, may I have one yes and no question?

Mr. CHAMBLISS. Just one.

Mr. McDERMOTT. Do I understand that the chairman of the Budget Committee will decide what an emergency is?

Mr. NUSSLE. No.

Mr. McDERMOTT. No. Who is it?

Mr. NUSSLE. It is first going to be based on a statutory definition.

Mr. McDERMOTT. OK. We are going to define an emergency.

Mr. CARDIN. Within the 5-year average.

Mr. NUSSLE. But that is an important point. I mean, no one person is going to hold that——

Mr. McDERMOTT. I want to be chairman.

Mr. NUSSLE. Don't we all?

Mr. CHAMBLISS. Mr. Knollenberg.

Mr. KNOLLENBERG. Thank you very much.

Gentleman, I appreciated all of your testimony, Jim, Ben and David. I realize the work you went through, some of it is thankless, and you have come up with a process, most of which I support, but there are a couple of things I don't support.

One of those is the lockbox, and my concern there, very briefly, is that I don't know how you can write that language to give you the proper implementation. But perhaps you are wiser than I, and if you are, fine.

Let me go to the provision I am bothered by more greatly than the lockbox, the automatic CR. I know there is an aura about the automatic CR that suggests we don't have to do anything, we can just put it on automatic pilot and everything will be fine. But, you know, no matter how well written an automatic CR would be, you still have some problems along the way.

For example, you have problems with special cases, like the census, research, construction projects. Then there is national defense.

In practice, this CR prevents Congress from being able to make any changes to any departments or programs. Because of this, because of the reality of this automatic CR, I think that it impacts what we can do in appropriations.

I happen to sit on both committees. It takes away some of the resolve of the Appropriations Committee if they know they don't have to worry about a shutdown. But it doesn't get the work done. Our backbone isn't straight. We become weak.

In fact, I think, Ben, I have heard you speak to this and I think some others, including Congressman Shays. I believe we give the

President, whomever it is, a Republican or a Democrat, more leverage, with an automatic CR. I think the President would probably rather have last year's funding levels or an omnibus bill where the administration can get more of what they want than if Congress has the power to deal with each appropriations bill and come up, if they can, with a solution to each and every one. If you look back over history, that is not always possible, I know.

I am concerned about the real effect of a CR, because I think it might prolong negotiations between the administration and Congress. And this business of not being in a must-pass mode, those of us on the Appropriations Committee I think know, turns over a huge amount of power to the administration, whichever party happens to be in power.

The other thing, I know there are many concerns that people have about the effects of a government shutdown, probably our party more than the Democratic Party. But government shutdowns can be avoided. They can be avoided without an automatic CR. There is a thing called a clean CR. Prior shutdowns have not been over appropriations issues, but they have been over extraneous issues. We don't have to mention them. You all know what they are.

Short-term CRs, if written cleanly, can be the vehicle we need. So I would like to have a response from any one of you. I know, Ben, you talked about it; and, David, you did as well. Do you see this in this fashion? Do you see the CR as being a strengthener?

Obviously, I have made my point clear. I would like to have your thoughts.

Mr. NUSSLE. It is interesting, because I know you have an appropriator's perspective on this, and that is one that none of us at the table here have. So, obviously, we have to defer to your judgment and the judgment of other appropriators on how best to manage your committee.

I have heard—I have had an opportunity to talk with Chairman Young and, as you know, we have had an opportunity to discuss this as well. It is going to be impossible for me to sell to you as appropriator to the Appropriations Committee that this will solve all the problems. I don't think anything can.

It is interesting, though. I think that one of the areas that is being missed by the appropriators is the perspective of the fact that the CR is looming all year long, as opposed to just in the last 11th hour. Typically, what happens now, as you know, is a continuing resolution comes in at the 11th hour. Because all of a sudden at the 11th hour, almost the 12th hour, you discover you can't get your work done. A CR, clean or otherwise, is rolled out, and a few days or a week is granted.

If you know at the beginning of the process, all the way in the beginning of the process, that you have a CR at the end, I wonder how that would change the dynamic?

It is because of that that we put this in here, because we felt that was different than just trying to get your work done in the 11th hour, which is how a CR is used now. The way it is used under this scenario is it suggests failure. It suggests that the only way you get to a CR at the end of the process is if first the joint resolution failed, meaning the President didn't come to Congress or

vice versa, that the minority and majority and the Budget Committee in Congress didn't come together, that the 302s were unrealistic, that the appropriation bills were unrealistic, there was no discussion with the administration, and so on. And all of a sudden at the end of the year there is a train wreck, and you knew it. Because it started off on the wrong foot, different from now when it is the 11th hour and you roll it out. That changes the dynamic I think.

Mr. KNOLLENBERG. If you were to follow and succeed in each step of the process you just outlined, we wouldn't be in the position of having a train wreck on our back. So I am saying to you that that is aside from the fact that you put the CR into the bill, because now I think it becomes a trip wire to say, well, we don't have to worry too much about it. It is July. September is coming. Now we don't have to do anything because we have that automatic CR there.

By the way, I am going to support this through, and I think you know that, but I just have some concerns. I think it will reach proportions of debate on the floor at some point. I can't give you an idea what the future will bring, but we ought to look very carefully at what we are doing here. I don't want to give any leverage to the President, whoever it is. We are the legislative body. I don't want to create a train wreck either.

But, frankly, I think we are dangerously close to talking about those things by giving up ground, high ground, as Members of Congress.

Mr. CHAMBLISS. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

I want to thank my colleagues for being here this morning and for the good work that has gone into this. I understand from the perspective of the discussions you have engaged in for months now that there has been a lot of cooperation, a lot of give and take and that this is a product in which you have some pride. So in asking you some critical questions, I don't mean to denigrate the overall product. But naturally, in a setting like this, we do focus on things we see that might be problematic.

I want to ask you to think as experienced politicians this morning about what some of these provisions might do to the dynamics of the budget process. In thinking about this, it might be instructive to recall our experience with the line item veto. I think as the line item veto was enacted and people anticipated where it might lead, it slowly dawned on a number of people that the line item veto was really not so much about budgeting so much as it was about political power, and that far more important than any specific instances in which the line item veto might be used, the far greater impact was likely to be on anticipated reactions and on the kinds of powers the President in particular would have at the front end of the budgeting process; and the whole dynamic of the way budgeting and appropriations work would likely be influenced by the President having this power.

Similarly, I think a number of the provisions in this proposed reform call for that kind of analysis. Let me just mention three briefly and ask you to pick and choose what you would like to comment on and tell me if you think I am wrong about this or off base.

First, we have had some discussion already, Mr. Spratt brought this up, about the way the discretionary spending baseline is dealt with in the legislation. The current baseline assumes discretionary spending will be at its capped level, of course, while caps are in place, and then if new caps are not in place, it will grow with inflation. That, according to the present timetable, would be in 2003.

This legislation assumes that if new caps are not in place, that it will be frozen at the 2002 level unless and until new caps are enacted.

My question is, what kind of temptations does that provide and what kind of incentives might it provide?

One thinks about tax cuts that might assume that a greater surplus is going to be out there than under the current baseline assumptions. A temptation might exist to enact tax cuts that would be in place permanently, of course, and would eat up that projected surplus.

One thinks about possible gaming to block enactment of new caps by people who might have a tax cut agenda or other sorts of agendas. This may not be as neutral a provision as some have suggested. What kind of incentives does it provide?

The second area is the automatic CR. What kind of disincentives does that provide for coming to agreement, for either those who are resistant to substantial increases in spending or, for that matter, those who are resistant to substantial decreases in spending? Or those who are opposing new priorities?

If the enactment of a regular appropriations bill would no longer be essential, then a Senate minority, for example, could use the filibuster to lock in the status quo on a given appropriations bill. The President could do the same thing with his veto. What might be the dynamics of the process with that automatic CR looming out at the end of the fiscal year?

Then, finally, let me ask you to reflect as experienced politicians on what difference it might make to require presidential approval of the budget resolution? We have all talked in past years about how desirable it would be for the President to have more of a sense of ownership of the budget resolution, the budget process, at an early point. But this process that you have put out here says appropriations couldn't go forward without that approval. I know there is a fast track if the approval doesn't come, but there would be a lot of pressures to secure presidential approval. What incentive would that provide, maybe on both sides, to hold this process hostage?

And in spite of the kind of things you have said about keeping this budget resolution clean, I think, inevitably, reconciliation-type provisions and agreements and understandings would be moved to the front of the process. Do you think that is a legitimate concern?

Those are three areas where it seems to me we need to think about the political dynamics. I would like to hear your reflections.

Mr. CARDIN. Let me thank you for your thoughtful questions, David, some of which I have already commented on.

The budget resolution is limited by statute what we put in there. If that is not strong enough, let's put in stronger language. I share that concern and Jim Nussle does also, and that is why we limited

it to the broad outline and the potential for the Ways and Means Committee to bring forward a debt limit.

The budget resolution I think makes us stronger. Talk about the line item veto, right now the President can hold all of his cards, we have to put ours on the table, and we meet with him in October or November, whatever the month, and we basically concede to whatever he wants. That is what happened when we have not had an agreement between the Congress and the White House on a budget document. So I think the President here has the upper hand.

Having a budget resolution that is signed by the President engages the White House earlier, gives us a more honest attempt to use our procedures, whether it is in the Appropriations Committee or in the Ways and Means Committee or in the Agriculture Committee, to do our work and each of us to have impact in what is in the budget. We don't have that today. We don't have that today. So it only makes us stronger.

In regards to the CR, we have had a lengthy discussion on it. I think the automatic CR can rise or fall on its own. It is a separate issue within our recommendations. Jim and I have talked about it. I think we should make a decision whether we think it is good or bad and move on to the other issues. People just disagree as to whether it is going to be positive or negative. I have already expressed my view on it.

In regards to the baseline, we talked about that before. Our intentions were very clear and that we expect that the budget resolution will reestablish the caps. We expect that, and we assume that. Now, if you are uncomfortable that Congress may not adopt caps and then use the projected surplus for irresponsible tax cuts or irresponsible spending on entitlements, if you don't have confidence in future Congresses, if you are that suspicious, let's figure out some additional provisions to put in to protect ourselves in the future from doing that.

I personally don't have that fear. I have a little bit of confidence we are going to do what is right. We are not going to do something that is totally irresponsible in that regard. Knowing full well that the budget caps that are currently to expire will need to be adjusted upwards, we are not going to have freezes in the future. It is not realistic for defense spending, for non-defense discretionary spending, we all know that. And we assume the first budget resolution for 2002 would deal with the caps for the future; and, therefore, we would not have the problem you are referring to.

Mr. NUSSLE. One of the interesting things that comes out of this is part of the reason why I think there was so much interest in just having a freeze at that point, is there was a real desire, sincere desire, that we get away from, and it happens on both sides, we get away from this automatic nature to spending. That there is an automatic inflationary device in there that suggests that if it is changed from that inflationary device, if programs change, if they are adjusted, somehow you are cutting something, somehow—so we wanted to try and again sincerely take that out. But I think you raise a good point.

The opposite argument you are making is then others could have the suspicion that it is going to tax cuts. That is fine. I think there

is room for us to make an adjustment there. We just didn't want to make an assumption that had not substantively been made yet. That was the only reason we had that freeze. We thought that was also maybe a mechanism to help move the budget process along, because freezes are not good to either side, as much as some might suspect that.

On the issue of mischief, and Mr. Spratt brought this up, because this is a joint resolution, therefore the force of law, would people try mischief on this, riders of some sort? It was a good point, and I think on the House side we see that because of our particular rules.

I am told, and I am far from any expert on Senate rules, but I am told that because of the changes we made in our law here, in the proposal we are moving forward, that if it is attempted that Senate rules will preclude that from occurring on the floor, either through filibuster or points of order.

I am not going to try to compete—there are a couple on the staff back there smiling or shaking their heads. I don't know. But my point is I think the Senate may be a backstop here automatically. But if it is not, let's look for maybe a mechanism.

Because I agree with you. This should be what we are asking. It is a budget, and that is it. And I agree.

On the CR, we have made those points. The only thing I would add to the points we have already made is if a majority in this Congress suggests that a status quo is what we ought to have, then that is what we ought to have. It is unfortunate that that happens, because I don't think anybody—think most of our constituents would suggest, whether they are for cutting or changing or whatever, most would be suggesting that status quo is not good. So I think there still is a mechanism in there that moves that way.

The final point I would make, and you brought this up in the very beginning about joint resolutions. You were talking about the unintended consequences of the line item veto. The only thing I would add to this is that it is not just the President that is brought into this process. The minority party is also brought into the process, whoever that is.

My point is that, as you know on your side of the aisle, we can bring a budget to this committee, we can vote on it, we can pass it, we can railroad it, you can have 30 or so amendments—maybe you have heard of this scenario before. Thirty or so amendments are defeated automatically on a party line vote, and you get no say in the process.

In what we are proposing, Mr. Spratt and the rest of the Democrats in this instance, and that may change in the future, would have to be brought in. You couldn't just railroad a bill automatically without any discussion. In order for it to be a joint resolution, at least I think there would be more safeguards now under our bill than there would be now.

I just throw that out. It is not just the President that is brought into this process. I believe the minority party would also be brought this. Just another observation.

Mr. PRICE. Good. I think a subtext of a lot of these issues is the question of whether, the minority party aside, they would give an

advantage to a determined minority, determined to work its will. I do think we need to work that through.

Mr. CHAMBLISS. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. I just really believe that this may be one of the most important things this Congress could pass this year, particularly after this week.

I was embarrassed, and frankly I hope all Members were embarrassed, by this emergency supplemental bill and the way it was put together and the things that were tucked into that bill. I was embarrassed last year at the way the Congress ended with the omnibus bill.

It seems to me we all lose when that is the process and that is the way it works. I think we all are diminished, and I think the respect for this institution, the Federal Government, our entire budget process, it seems to me we are all diminished when that happens. So I really do believe that it is time, and I thank you all.

I think I will do everything I can to see that this thing ultimately at least gets passed by the House, and hopefully the Senate, because I think this is a very, very important thing. I agree with you, David, it is important it was done on a bipartisan basis. You can talk about campaign finance reform, but until you get Republicans and Democrats actually talking together, then it is more or less just political posturing. This is an important issue.

What it really is, and I think we have to get back to focus, what this is, it sort of is like setting up a set of rules, Marquis of Queensberry type rules, of how this whole negotiation process is going to work. And it is all about negotiations.

I know there is a lot of concern about who is going to have an advantage, disadvantage, and whatever. I come back to a story, one of the great negotiators of the 20th century was a guy by the name of Al Capone. Al Capone said you can achieve more with a soft voice and a loaded gun than you can with a soft voice. And I think there is too much worrying about who has got the biggest gun in this negotiation.

But I think we forget at the end of the day what happens at the end of September when we approach the end of the fiscal year, the beginning of the next fiscal year, we both get out our guns. But what we do is we hold—the people who we are putting the guns to the heads of are people that work for the Federal Government, honest, decent hard working people who work for the Federal Government, and people who depend on the Federal Government for some level of service. And we say you know, if you don't do what we want, we are going to shoot this guy.

In my opinion, that is reckless, that is irresponsible, that is not the way the process should work, and I just have to congratulate you.

The other thing that amazes me, some of the comments when you started, even though you spent all of this time on this project, and there is another old expression that ideas and children are brilliant when they are your own. And to hear criticism of what you have been working on now for over a year, I think has got to take a certain kind of character to do that.

And then offer, say if you have better ideas, we will listen to you, I hope we all will keep open minds and realize this is nothing more

than setting up a new set of rules by which the negotiation process will go forward and bringing the executive branch into that discussion early as we found until 1997 with the balanced budget agreement, yielded some very beneficial results, not just for the executive branch, not just for the Congress, but for the American people.

So I hope that we can minimize some of the partisan differences on this. I pledge from my perspective to do whatever I can to help you. I thank you.

I don't have any particular questions to ask, because you have done an excellent job of explaining it from my perspective. There will be questions; there are concerns.

You know, if we wait until every single objection is completely responded to, we are never going to do anything and we are going to wind up right where we have always been at the end of September. And we are going to look bad. In some respects, the administration is going to look bad. And the American people look at this, and say there must be a better way. Thank you for offering a better way.

Mr. CHAMBLISS. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. I regret that I had to leave the committee prior to listening to your testimony and your explanation of what you are trying to do.

I can take a few minutes and have taken a few minutes to review the bill that you are proposing. I think it is long overdue to reform the budget process. I commend you for the work you have done. I pledge my support to move forward in reforming this system and with an open mind.

If there are, and I agree with you, if someone has a better idea they want to inject in the process as we go, let's hear it and decide if it is a better idea. But we appreciate the work you have done and look forward to working with you in the future to move this forward.

Chairman KASICH [presiding]. I want to thank the panel—yes?

Mr. NUSSLE. Could I make one final observation? I want to again thank you and Mr. Spratt for appointing the task force. I would just point out to the members of the committee and Members of the House that part of the reason why we were appointed, if you recall, is that we were in an era, a few months, a few years, where we had ad hoc budget reform measures coming to the floor, piecemeal.

All of a sudden somebody would have a, hey, I know kind of idea. Let's try this to rein in the budget or change the process. Part of the reason you appointed us was to gather all those ideas together.

So all I would say in conclusion is that we have gathered those ideas together. I would hope that we move something forward, if for no other reason than to prevent what Mr. Price was suggesting. With ad hoc proposals coming to the floor with unintended consequences being the result, we have tried to put this together, it is not perfect. We hope that you will continue to work with us, and we appreciate the hearing that you have given us today.

Chairman KASICH. Thank you very much. I hope you all stay for Mr. Lew. We will now ask Mr. Lew to come up and proceed with his testimony.

I would like to welcome our witness. Jack, it is all yours. The floor is yours

**STATEMENT OF HONORABLE JACOB J. LEW, DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET**

Mr. LEW. Thank you, Mr. Chairman. I submitted a statement for the record which I hope will be included in the record, but I would like to just begin with a few brief summary remarks.

I would like to join the Members who commended the efforts of the task force to look at these very difficult questions in a thoughtful way. The fact that we disagree with the conclusions they have reached in no way suggests that we don't have a lot of respect for the effort that they have gone through.

I would like to begin by saying that the Budget Enforcement Act has worked. I think back to 1997, to the hours and weeks that the chairman, the ranking member and many of us spent together; to me that is proof that the current system has worked. It has provided a basis for resolving differences and for moving forward with fiscal discipline and with policy that has bridged differences that began as very large.

However, I look at the proposed changes that are in the task force report, and I am troubled by a number of them, as set forth in H.R. 853.

First of all, the PAYGO rules. The PAYGO rules have worked very well since 1990, and I think it would be a mistake to eliminate the discipline that they have imposed on the process.

The PAYGO rules are most important not at the moment that there is a budget negotiation. They are most important in between. They are most important in maintaining fiscal discipline so that at the moment when large decisions are made, they can be made in a balanced way, taking into account the full consequence of the effect of those decisions. That is what happened in 1997, and that was I think a good thing. The Balanced Budget Act was good policy and it was consistent with the process set up by PAYGO.

Eliminating PAYGO at a time of surplus invites a series of decisions that I think we would look back on and regret. We would look back and regret decisions that treated the surplus as a certainty at a moment when estimates turned out not to be correct, and it didn't appear.

The mechanism in the bill I think is very troubling. It takes a system which now is based on scoring a bill at the time it is passed and substitutes for it what is really, in a way, a throw back to the fixed deficit approach of the original Gramm-Rudman-Hollings law. Rather than basing our judgment on what is within the four corners of proposed legislation, we would be entering onto the books a negative PAYGO entry. So if our estimates turn out to be wrong, when we get out to the future, we would have to do an across-the-board cut. And in all likelihood—the reason we would be wrong is because the economy had taken a downturn, which would be the very worst time to have an across-the-board cut. It is not a workable mechanism.

The automatic continuing resolution is something we have debated over the years. The President has vetoed it in the past. The notion of an automatic continuing resolution I think is very troubling.

First, it is policy that doesn't make any sense. There is no rationale for continuing at last year's level rather than making decisions

about this year's level. In the earlier question and answer period, some of the best examples were cited. You look at an example like the census, and it is a perfect example of how a continuing resolution can't possibly deal with the year-to-year changes. Every 10 years there is a spike in census costs. An automatic continuing resolution couldn't take account of that.

You look at programs where participation is based on the number of people who are eligible, and one year's numbers don't suggest next year's needs.

There is really no substitute for doing the work each year. We have engaged over the last few years in some very difficult debates. But I would note in each case, we did reach a conclusion. It is only in 1995 that there was a government shutdown. For the preceding period of time and the period of time since, there has not been, and there should never be another shutdown. I don't think the right comparison is between government shutdown and an automatic continuing resolution. The right outcome is to work through the legislation and to resolve the issues.

There are a number of other issues in the legislation which I have addressed in some detail in my prepared statement, but in the interest of time, I think I will stop there and be delighted to answer any questions that you might have.

[The prepared statement of Jacob J. Lew follows:]

PREPARED STATEMENT OF HON. JACOB J. LEW, DIRECTOR, OFFICE OF MANAGEMENT
AND BUDGET

Mr. Chairman, Representative Spratt, and members of the committee:

Thank you for the opportunity to appear before your committee today to discuss H.R. 853, the "Comprehensive Budget Process Reform Act of 1999," as introduced by Representatives Nussle and Cardin on February 25, 1999.

I would like to begin by emphasizing that the Budget Enforcement Act (BEA) has worked. The BEA has imposed an essential discipline on discretionary spending by means of enforceable discretionary spending caps. And the statutory pay-as-you-go (PAYGO) requirements have ensured that new mandatory spending and new tax cuts are paid for with offsetting spending reductions and revenue increases.

In short, the BEA's spending caps and PAYGO requirements have, over the last decade, helped reduce and eliminate the deficit and produce a surplus for the first time in 29 years. These tools for fiscal discipline, together with the 1993 and 1997 Budget Reconciliation Acts, have been key to our success.

Moreover, it should be noted that the PAYGO rules have been instrumental in the President's commitments to "save Social Security first" and to strengthen Medicare. By requiring that new spending and tax cuts be fully paid for, PAYGO has effectively prevented the spending of projected surpluses before the solvency of Social Security and Medicare have been secured. In addition, PAYGO has started us down the road toward substantial debt reduction.

We have a process that has worked. Before we make any changes to the current budget rules, we need to ask why the changes are needed, and to consider very carefully all of their consequences.

H.R. 853 would make several far-reaching changes to the current budget process. Transforming the Concurrent Budget Resolution into a Joint Budget Resolution presented to the President for signature, is a concept which this Administration has in the past supported.

However, as I will explain, the Administration is strongly opposed to the bill's serious weakening of the PAYGO rules and its establishment of an automatic continuing resolution. In addition, we have concerns about changes to the emergency procedures, the appropriations "lockbox" and other provisions in the bill.

I. REPEALING PAYGO IN AN ERA OF SURPLUSES

H.R. 853 would effectively repeal PAYGO in an era of surpluses. It would amend the BEA to permit on-budget surpluses to be spent on tax cuts or mandatory spend-

ing increases, without pay-as-you-go offsets. To understand fully the implications of this change, a brief review of the PAYGO rules will be useful.

Background.—The Budget Enforcement Act of 1990 set up separate enforcement mechanisms for: (1) discretionary spending; and (2) revenues and direct spending. These mechanisms—annual caps on discretionary spending and a pay-as-you-go requirement for revenues and direct spending—replaced the largely ineffective Gramm-Rudman-Hollings regime of declining annual deficit targets.

The PAYGO process originally required that changes in direct spending and revenues, combined, not increase the deficit in any year through FY 1995. The Budget Reconciliation Act of 1993 (OBRA-93) extended this requirement through FY 1998, and the 1997 Balanced Budget Act (BBA) further extended PAYGO for all legislation enacted through 2002.

PAYGO applies not to each new law individually, but to the cumulative effect of all new laws enacted since a designated starting point. The original starting point was all legislation enacted subsequent to the 1990 BEA. The current starting point for PAYGO calculations is legislation enacted since the BBA in 1997. OMB is required to maintain a “PAYGO scorecard” of both deficit and savings effects from all direct spending and revenue legislation enacted since the BBA and through 2002. Deficit effects of such legislation are calculated for the budget year and each of the ensuing 4 years (so that PAYGO will be enforced through 2006, for legislation which is enacted in 2002.)

OMB enforces the PAYGO requirements through “sequestration.” If at the end of a congressional session, the scorecard shows a combined net deficit increase (or surplus reduction) for the fiscal years just-beginning and just-ended, OMB is required to implement across-the-board cuts in all non-exempt direct spending programs in amounts sufficient to eliminate the deficit increase (or restore the surplus). These across-the-board cuts are called sequestration. About 80 percent of outlays associated with direct spending programs are statutorily exempt from automatic sequestration cuts. Exempt programs include Social Security, Federal retirement and disability programs, net interest, certain low-income programs, veterans’ compensation and pensions, and regular State unemployment insurance benefits.

Under the automatic sequestration of non-exempt programs, the sequester calculations are made so that two programs with automatic spending increases (COLAs)—the special milk program and vocational rehabilitation—are cut first, followed by two special-rule programs (Stafford loans, formerly called guaranteed student loans, and foster care and adoption assistance), and then Medicare and the remaining non-exempt direct spending programs. Automatic cuts in Medicare under PAYGO are limited to 4 percent, but there is no limit to the cuts which can be imposed on non-exempt direct spending programs.

The PAYGO requirements apply only to new legislation, not to changes in spending levels under existing law. For example, the estimated increase in mandatory spending resulting from a new law that broadened a beneficiary population would have to be offset, or it would trigger a sequester. However, if a beneficiary population as defined under existing law simply grew, the increased spending would not have to be offset. This is the key to PAYGO’s success: it holds people responsible for legislative changes they can control not for economic changes beyond their direct control.

Under current law, PAYGO applies whether the Federal Government is running a deficit or a surplus. Therefore, tax cuts or direct spending increases that would cause a reduction in on-budget surpluses must be fully offset, just as legislation causing or increasing on-budget deficits must be offset.

Title VII of H.R. 853 would fundamentally change current law by permitting tax cuts or new direct spending legislation to be enacted without offsets—up to the amount of projected on-budget surpluses. For example, the bill would permit a large tax cut or more spending to be enacted without any offsets, as long as the amount of the tax cuts does not cause or increase an on-budget deficit. This effectively repeals the pay-as-you-go requirement in an era of surpluses.

The Administration strongly opposes this repeal of the PAYGO rules. The Administration has proposed a framework for allocating projected budget surpluses over the next 15 years, but strongly believes that after Social Security and Medicare have been strengthened the pay-as-you-go disciplines should continue as they did following OBRA-93 and the BBA of ’97. H.R. 853, however, would set into permanent law the principle that any amount of projected on-budget surpluses could be spent on new tax cuts or new direct spending programs without offsets.

To understand the dangers of this approach, consider this year’s Congressional Budget Resolution, H.Con.Res. 68 (Budget Resolution). The Budget Resolution calls for a tax cut of \$778 billion over the next ten fiscal years—which amounts to nearly all of the currently projected on-budget surpluses for that period. The PAYGO re-

peal called for in H.R. 853 would permit enactment of these permanent, and very expensive, tax cuts without any offsetting revenues or spending cuts. The tax cut would create large negative balances on the PAYGO scorecard for each of the subsequent years on the assumption that these negative balances will be offset by the actual surpluses when the time comes.

Now consider what would happen if the economy grows a bit more slowly than is currently projected, and the on-budget surpluses over the next 10 years, in the absence of legislation, turn out to be half of what is currently projected. The tax cuts would already be in permanent law, but the surpluses which were supposed to finance the tax cuts would not have materialized. We could face a net deficit big enough to trigger a 100 percent PAYGO sequestration. That means that Medicare spending would be automatically cut by 4 percent; spending for all of the non-exempt mandatory spending programs—child support enforcement, social services block grants, veterans education and readjustment benefits, CCC, crop insurance, and others would be eliminated; and there might still be some deficit remaining. Or, to avoid such a sequestration, Congress and the Administration would be forced to slash selected mandatory and discretionary spending programs. One of the principal reasons we need to maintain the fiscal discipline of the PAYGO rules during a time of surplus, as well as during deficit periods, is the relative uncertainty of budget forecasting.

The PAYGO rules have been and continue to be a pillar of fiscal discipline. They have saved the surpluses for Social Security and Medicare, and have reduced our public debt. We urge the committee to maintain this discipline.

II. AUTOMATIC CONTINUING RESOLUTION

Title VI of H.R. 853 would establish an automatic continuing resolution (auto-CR) which would continue funding at the previous year's levels, in the absence of regular appropriations. Similar proposals have been under discussion in the past, particularly since the government shutdowns of 1995. The government shutdowns during the 104th Congress were unnecessary and very costly, and—as the President has said—should never happen again.

However, an auto-CR is an irrational and unworkable response. Congress should not undermine the ability to respond to a changing world by substituting an automatic funding mechanism for the hard work and judgment that results from bicameral action and presidential approval.

In addition, under this bill, auto-CRs would last for the whole year, unless replaced by regular appropriations. Full year CRs could therefore trigger a sequester if they result in spending levels greater than the caps of that year.

An auto-CR could disrupt the funding of government programs in other ways. For example, an auto-CR could be a powerful incentive for filibusters in the Senate. A minority of 41 in the Senate could impose a freeze on selected programs defense or non-defense—simply by filibustering the relevant appropriations bills. Alternatively, a minority of 41 could prevent program reductions, where the savings are needed to fund higher priorities. In fact, such a minority could perpetuate programs with no review or reform whatsoever.

In short, it is the Congress' constitutional responsibility to make decisions about appropriate funding levels for the government's activities. Putting appropriations on auto-pilot would be a mistake.

I would remind the committee that in 1997, the President vetoed an emergency flood supplemental because it attempted to enact an auto-CR that would have undermined the appropriations process.

III. EMERGENCY SPENDING

Title II of H.R. 853 would repeal the BEA “emergency” procedures. Those procedures currently provide for the upward adjustment of the discretionary spending caps to accommodate emergency spending. For this purpose, spending is deemed an “emergency” when it is jointly designated as such by the President and the Congress. (Though seldom used, the BEA also permits designation of direct spending and revenue provisions as emergencies; in such cases, the costs of such legislation are not placed on the PAYGO scorecard.)

H.R. 853 would replace the current-law emergency procedures with a requirement that both the President's Budget and the Congressional Budget Resolution include a “reserve” for emergencies that is not less than the average for emergency spending in the preceding 5 years.

Use of the reserve fund is made contingent upon the Budget Committee Chairmen certifying that the spending meets a new statutory definition of “emergency.” “Emergency” is defined in the bill as a “situation that requires new BA and out-

lays...for the prevention or mitigation of, or response to, loss of life or property, or a threat to national security; and is unanticipated"; the bill defines "unanticipated" as "sudden, ... urgent, ... unforeseen, ... and temporary."

In addition, under H.R. 853, any legislation which proposes emergency spending that would exceed the emergency reserve would be automatically referred to the Budget Committees for not more than 3 days. The Budget Committees would determine whether to report an amendment exempting the emergency spending from the discretionary caps or PAYGO requirement, as appropriate.

H.R. 853, as introduced, does not address the issue of whether the discretionary spending caps would be adjusted upward to levels sufficient to accommodate inclusion of an "emergency reserve." If there is an insufficient upward adjustment, the fencing off of funds for this emergency reserve would make already extremely tight spending caps that much tighter. The Administration would strongly oppose a significant tightening of the discretionary caps.

But even if there is an intention to fully adjust the caps for such a reserve, the Administration would still have concerns about the advisability of this proposal in its current form. Consider Table 1, which shows emergency spending in each year since enactment of the BEA. As the table shows, emergency spending is by its very nature inherently unpredictable. If an emergency reserve is created, based on a 5-year average, it could end up being too little to cover emergencies in some years; while in other years, it would end up being too much, which would divert scarce resources from other needs.

TABLE 1.—EMERGENCY SPENDING FY 1991–FY 1999

[Budget authority, in millions]

	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999 ¹
Desert Shield/Storm	44,253	14,063	758	4	0	0	0	0	0
Legislative Branch	7	0	0	0	0	0	0	0	224
Judicial Branch	0	0	0	0	16	0	10	0	13
Agriculture (discretionary)	0	226	190	623	364	333	738	215	133
Agriculture (mandatory)	0	2,185	1,450	130	1,000	0	0	0	5,744
Commerce	0	87	110	235	103	26	76	0	54
Defense	0	0	0	1,497	2,447	982	2,073	2,832	7,027
Education	0	102	120	245	0	0	0	0	4
Energy	0	0	0	0	0	0	0	208	549
Health and Human Services	0	106	0	417	121	197	247	160	406
Housing and Urban Development	0	24	420	862	222	50	250	250	142
Interior	0	69	99	53	5	214	393	48	93
Justice	8	57	0	0	114	0	231	0	74
Labor	0	500	85	33	0	0	0	0	20
State	49	6	0	30	0	0	49	0	1,715
Transportation	0	91	131	1,342	-76	300	951	269	582
Treasury	9	36	0	0	44	0	153	0	915
Veterans Affairs	0	16	0	116	0	0	0	0	0
Corps of Engineers	0	46	175	130	0	165	604	105	103
Environmental Protection Agency	0	0	34	0	0	0	0	0	0
Executive Office of the President	0	0	0	0	0	0	0	0	43
Federal Emergency Management Agency	0	4,008	1,735	5,146	3,289	2,282	3,300	1,605	461
General Services Administration	0	3	0	7	67	0	0	0	18
International Security Assistance	850	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	0	0	0	21	0	0	0	0	0
Small Business Administration	0	659	70	1,248	0	225	0	0	66
Social Security Administration	0	0	0	1	0	0	0	0	0
Other	14	0	2	26	0	248	158	19	282
Unreleased Contingent Emergency Funding	2,680								
Total, Emergency Spending	45,190	22,284	5,379	12,166	7,716	5,022	9,233	5,711	21,348

¹ FY 1999 includes unreleased contingent emergency funding of \$2.7 billion.

Moreover, the President, the Congress, and the Nation need to be able to respond quickly to emergencies whether it is for military and humanitarian needs in Kosovo, aid to victims of tornadoes, farmers struggling with low prices, or assistance desperately needed by hurricane or earthquake victims. The current process, which per-

mits emergency spending only when it is jointly designated, in law, by the President and the Congress, can already take months. H.R. 853, by contrast, would further encumber the process by requiring the Budget Committees to determine whether particular emergencies meet a rigid statutory definition. This additional encumbrance is unnecessary and could have very negative consequences when emergency relief is urgently needed.

IV. PUTTING THE SQUEEZE ON APPROPRIATIONS: THE LOCKBOX AND BASELINES

Title VI of the bill would establish procedures to give Members offering Floor amendments cutting appropriations the option to allocate the savings either as off-sets for other spending, or as savings to go into a “lockbox.” The lockbox savings would automatically reduce the Appropriations Committees’ 302 allocations; and by operation of language to be included in the appropriations bills, would also reduce the statutory caps.

The Administration has concerns about this proposal because it has the potential to further reduce already tight discretionary spending caps. In an era of very tight discretionary spending limits, savings from lower priority appropriations should continue to be available for higher priorities.

In addition, the lockbox mechanism itself, is unworkable. For example, a Senator could offer an amendment to reduce funding in a particular appropriation bill and direct all of the savings to the lockbox. Even if the House cuts nothing from that bill, H.R. 853 requires that one-half of the Senate’s cut would remain in the lockbox—automatically reducing the 302(a) allocations in the Senate and in the House. So you could end up with a circumstance where a Senate amendment has lowered the House Appropriations Committee’s 302(a) allocation—contrary to the levels the House had adopted in the Budget Resolution.

In addition to appropriations being squeezed by a lockbox mechanism, H.R. 853 purports to mandate that the Congressional Budget Office (CBO) and OMB use the prior fiscal year’s level without adjustment for inflation as their baselines for projections of discretionary spending in future years. The results would be that when estimating future surpluses or deficits, the Congress would be assuming a hard freeze on discretionary programs, rather than estimating the inflation-adjusted costs of continuing current services. The result would be a substantial under-estimate of what it would cost to continue current government operations and services resulting in more pressure on discretionary appropriations.

V. ACCRUAL BUDGET FOR FEDERAL INSURANCE PROGRAMS

Title VI of the bill mandates budgeting for Federal insurance programs on the basis of the net present value of the risk assumed in a given year, instead of the traditional cash basis of payouts minus premium collections. This approach is generally analogous to budgeting for credit programs under the Federal Credit Reform Act. The requirements would apply to deposit insurance, pension guarantees, flood and crop insurance, the Overseas Private Investment Corporation’s insurance program, and other insurance programs. The bill provides for several years of experimentation, publication of advisory estimates, and transparency for the models and data used. In addition, it would require reports by OMB, CBO, and GAO on the feasibility of risk-assumed budgeting for insurance programs. It would require the President actually to base the budgets for insurance programs on risk-assumed estimates beginning with the FY 2006 budget.

We agree that risk-assumed estimates—if they are reliable and well understood—would have considerable merit for scoring insurance programs in the budget. However, the use of this methodology, outside of the comparatively ordered world of contractual arrangements between lenders and borrowers, is sufficiently difficult that OMB would oppose a statutory deadline for its implementation. Estimates for some programs could change substantially from year to year with shifts in interest rates and other long-range assumptions. Producing the estimates would require highly sophisticated estimating models that neither we nor the private sector have now or are likely to have any time soon. Whether such models could be developed in time to meet the requirements of the bill is highly uncertain. While we understand the bill sponsors’ desire to set a firm target date for implementing this change, we do not believe it is realistic at this time.

VI. TEN-YEAR LIMITS ON PROGRAM AUTHORIZATIONS AND ENTITLEMENTS

Title IV of H.R. 853 requires committees to submit schedules for reauthorizing, within 10 years, all programs in their jurisdiction, including entitlements. It also prohibits the consideration of new direct spending programs unless their duration

is limited to 10 or fewer years. And it guarantees Members the right to offer amendments subjecting proposed entitlements to the appropriations process.

The apparent objective of this title is to limit the enactment of new entitlement benefits. The Administration believes the right approach is not to put arbitrary roadblocks in the way of new direct spending, but to maintain the current law PAYGO rules so that new direct spending is paid for, and must compete against alternative uses of available funds. It is highly ironic that H.R. 853 on the one hand seeks to rein in the creation of new entitlement authority, at the same time that it repeals the pay-as-you-go requirements when surpluses exist.

I want to thank the committee for this opportunity to present the Administration's views on H.R. 853 and would be happy to answer any questions you may have.

Chairman KASICH. Jack, just one question from me, and that is the notion that we shouldn't have an automatic CR. What would you say would the option be? In other words, every time we get to the end, there is a game of chicken and everybody is trying to say well, I didn't shut the government down. You say well, we didn't shut the government down.

Then we go we are not going to shut it down this year, and you say well, of course, we are not going to shut it down this year. And then at the very end we pass some lousy bill. What is wrong with the notion that there be pressure on not just the Congress? It is interesting.

It shows you how effective Bill Clinton is in communicating, because I can remember, I have been here a long time, even though I am so amazingly young looking. But I remember when the government shutdown when George Bush was President, and a couple people couldn't get in the Washington Monument and boy, we couldn't move fast enough to reopen the government because it was all being blamed on George Bush.

Then when the government shutdown in 1995, President Clinton was able to make sure that he did a good job of being able to blame the Congress for shutting down the government. The fact is though there doesn't appear to be at this point in time any pressure on the President to reach an agreement unless it is kind of his way.

Shouldn't there be pressure both on the Congress and on the President to have some leverage in terms of getting a settlement? I am not sure this works in my long-term best interests, but the fact is that it just seems to me as though there is no pressure on a very able communicating executive, while all the pressure falls on the Congress.

Mr. LEW. Mr. Chairman, I think that it is easy for that to be avoided by doing short-term CRs. While there are ongoing budget negotiations, there is not a need for there to be a government shutdown if there is an ongoing, even a prolonged negotiation. It is not a new phenomenon. Short-term CRs go back decades.

I don't consider it a shameful thing for Congress to pass a short-term CR during a negotiation. I think the name CR has gotten sort of a bad name, but it is necessary sometimes to have stopgap funding to permit differences to be worked out.

I think if the interest is trying to have a more neutral approach so that both parties, both branches of government, have an incentive to negotiate, the current system actually has a lot of very positive attributes.

Chairman KASICH. But the problem is, Jack, let's go back to the short-term CRs. If we don't give you a short-term CR at the spend-

ing level you want, then you threaten to veto it, the government gets shutdown.

Mr. LEW. Short-term CRs are very different from automatic CRs that could potentially become full-year bills. For a short period of time, there are always anomalies that occur that we actually have worked through on a collegial basis, so that short-term CRs have no technical problems. So we don't have examples of programs where there are irrational results for 2 or 3 weeks. There is actually a fine tradition of making sure that works.

Chairman KASICH. Irrational results, I guess that is like irrational exuberance, they are in the eye of the beholder.

Mr. LEW. Unintended consequences is really what I mean. I mean, there is no desire to have a program reach a crisis, but because a CR would have that effect, you need to address that.

Chairman KASICH. I got you.

Mr. LEW. The current system is a matter of perspective, perhaps, but from our perspective, the bills are written by Congress. We have to be invited into a negotiation. We have a relatively blunt instrument, and it is an instrument that we don't like to use.

I think the goal, and I hope most of the Members here agree, is to work through these differences in a collegial manner, where neither side wins or loses everything. If the objective in a negotiation is for one side or the other to lose completely, you end up with confrontation.

If the attempt is to work out differences, you don't need automatic CRs. In 1995, I would argue we didn't have a process problem. We had a strategic difference that was really big; we had policy issues—

Chairman KASICH. One group wanted to balance the budget, and the other one didn't. That is right. I am just kidding.

Mr. LEW. We won't relitigate that.

Chairman KASICH. Come on, Jim. Just kidding. But I understand where you are on this. I just think the current system really doesn't provide equal leverage. It depends who the executive is and how effective a communicator the executive is also. So that is at play.

But to me I think it is not necessarily in either party's interest to go to last year's spending level, because those priorities do change. But to me it creates the greatest amount of leverage. But that, of course, is just a matter of opinion.

Mr. Spratt is recognized.

Mr. SPRATT. Mr. Lew, the House Budget Committee report for the fiscal year 2000 budget resolution has a statement reading as follows: PAYGO is enforced through a sequestration applied to all nonexempt entitlement programs. The law is somewhat unclear whether PAYGO lapses when there is an on-budget surplus. CBO has hinted that PAYGO would indeed lapse if the budget was in balance without counting excess Social Security receipts.

Is that your position now or has it ever been your position that PAYGO would lapse if we had an on-budget surplus?

Mr. LEW. Mr. Spratt, it has never been our position that PAYGO would lapse. We have been asked a series of questions over a number of years and, under different circumstances, have answered based on the period of time in question. I think the fact is that

some years ago none of us predicted an on-budget surplus in the 5 year window. All of the discussion was about unified surplus with an off-budget surplus driving it.

At the moment we were confronted with an on-budget surplus quite immediately and we were asked the question, we opined that we believe PAYGO continues to apply. I believe I wrote a letter to you in April indicating that officially. But we have informally indicated that on quite a number of occasions as well.

Mr. SPRATT. Mr. Chairman, I would ask unanimous consent that the letter to me on April 6 from Mr. Lew about the OMB position on PAYGO be made part of the record.

Chairman KASICH. Without objection.

[The information referred to follows:]

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, April 6, 1999.

Hon. JOHN SPRATT,
Committee on the Budget, U.S. House of Representatives, Washington, DC.

DEAR REPRESENTATIVE SPRATT: Your staff requested the Office of Management and Budget's (OMB) opinion with reference to the following statement in the House Budget Committee Report on the FY 2000 Budget Resolution:

"PAYGO is enforced through a sequestration applied to all non-exempt entitlement programs. The law is somewhat unclear whether PAYGO lapses when there is an on-budget surplus. OMB has hinted that PAYGO would indeed lapse if the budget was in balance without counting excess Social Security receipts." (H.Rpt. 106-73)

The Report's statement regarding OMB's position is *not* correct. We believe that PAYGO does apply when there is an on-budget surplus. We also concur with the reasoning about legislative content contained in CBO's October 29, 1997, letter to Chairman Domenici.

If you or your staff have any further questions related to this issue, please do not hesitate to contact us.

Sincerely,

JACOB J. LEW,
Director.

Mr. SPRATT. Mr. Lew, one of the objectives of this bill is to bring together the executive branch and the Congress sooner in the process rather than later. We did that in 1997, and that was the President's very purpose in sort of summoning the principals on the Budget Committee together to start negotiating in late February and early March; and culminated in the balanced budget agreement of 1997.

I think it is objective, but I don't think a joint resolution necessarily accomplishes that end. Number one, how do you regard a joint resolution as opposed to a concurrent resolution, and, number two, do you have any other alternatives for engaging the executive branch earlier?

I would think you would like to be engaged. You would like to be invited into the conference committee meetings and things of this nature at an earlier point so you could affect the process before it got to the very endgame.

Mr. LEW. I think that it is highly desirable for the two branches to engage as early as possible. The procedural device of a joint resolution versus a concurrent resolution is therefore an interesting one. As you know, my predecessor endorsed the idea. I will confess to some personal misgivings, only because I fear that it would slow

the process down, and if you can't reach agreement at the front end, there are real problems with delaying taking the first steps.

It certainly is something that the executive branch I think would welcome, being invited into the discussions early. The notion of a joint resolution is certainly one that is not troubling in an executive-legislative sense.

The only concern I have, and it doesn't rise to my objecting to it, is the consequences. If there is an early negotiation and Congress can't begin its work until very late, there is a question whether you can catch up. If there is a way to keep going with some of the steps in the process while you are working through those differences, I think it would be the perfect combination.

Last year we saw without a budget resolution that the appropriation bills could continue to move. I think if you go to a joint resolution approach, you need to think in terms of how to keep the process moving. Otherwise you get to September-October, and there is just an awful lot of work to do.

Certainly from the point of view of sort of a constructive engagement early, it is very attractive. I personally believe there is no substitute for the parties wanting to engage. In 1997, it wasn't a matter of process, it was a matter of commitment on your part, on the Chairman's part, on the President's part, and comparable participation from the Senate. And whatever the process, that is what it takes. We have to not look for clubs, but ways to get together.

Mr. SPRATT. I think you struck upon a fundamental point. When the parties, the President and the Congress, want to negotiate earlier, there is no barrier that prevents them from doing it. On the other hand, if you have a barrier that requires us to come together and spend a certain amount of time working on a CR, which neither party is ready to compromise enough to really put over the top, it could badly delay the process.

Mr. LEW. That is a concern. I mean, the system has a tendency to slow down more easily than to speed up. Having begun my career here in the House, it is something I am particularly sensitive to. If you don't make a certain amount of progress by the summer, there is just not enough time in the fall to catch up.

Mr. SPRATT. Looking at the bill as a whole, if it came to the President in the form that it has been filed and now stands before the committee, what recommendation would you make to the President with regard to signing the bill?

Mr. LEW. As I indicated in my opening remarks, we are very troubled by the number of provisions in this bill. As you know, the President has vetoed provisions similar to the automatic CR provisions in this bill. I would have to say that on balance, looking at all of the concerns we have in this bill, it would be my recommendation that he not sign the bill, that he veto the bill. But this is a very early point in the process, and I would only make that comment to respond to the question. We would certainly hope not to be in a position where there is a bill that has to be vetoed.

Mr. SPRATT. Thank you very much.

Chairman KASICH. Mr. Chambliss.

Mr. CHAMBLISS. Mr. Lew, I think it takes a certain amount of political arrogance to come in here, after having been invited to participate in the process and apparently refusing to participate in the

process of developing the guts of this bill, to now say you would recommend that the President veto this bill if it passes in its current form, I really don't understand that.

I think it kind of goes along with what you alluded to earlier, that you don't agree that we need a joint resolution process where the White House engages in the process early on and we try to do what Congress thinks is the best way of engaging Congress and the White House to achieve a joint resolution early in the game every year, rather than the American people sitting out there and watching us battle, as they are doing right now. And as they are going to do all through the summer and into the fall.

Instead of engaging early, resolving our problems early, moving forward in a smoother manner, the only thing I can surmise from your comments is that you think there is some political advantage to not having a joint resolution and engaging the White House early on. Otherwise you would have done it. I am a little dismayed by the attitude that you apparently have about this. The one thing I say is you are absolutely correct, your predecessor supported this type of process, this type of bill.

In the analytical perspectives attached to the 1998 budget submitted by the White House, your predecessor alluded to just exactly this type of process as being a very favorable course of action for Congress to take and that the White House urged Congress to take such action.

I disagree with your comments that you haven't flip-flopped on PAYGO. I think it is pretty obvious you have. You personally did send a letter to Mr. Spratt in which you say PAYGO applies even though we have an on-budget surplus. But again, a year ago your predecessor seemed to state otherwise. So there obviously has been a change of heart there.

But I don't know, I want to give you a chance to respond to that. Am I wrong? Are you thinking there is a political advantage? That is why you don't want this? What is your real reason?

Mr. LEW. Let me respond first by clarifying. I didn't say I opposed the joint resolution. I raised a concern, which I think may be addressable. It was an attempt to be constructive, not to be in opposition. I am not disagreeing with the effort of trying to design a mechanism. I was just setting forth a concern that I think would need to be worked through.

I don't necessarily object to it. I was trying to distinguish my comments from objecting to it. So let me just clarify that. I am substantially more neutral than opposing it.

As far as the issue of the PAYGO matter, I think there was a misunderstanding of the earlier correspondence that was signed by my predecessor. It was addressing a very narrow set of circumstances.

It was addressing a question of what happens during a period of time during which there was a unified surplus, but an on-budget deficit. At the moment when that issue was presented, we addressed that specific scenario for the first time. We have never reversed.

We tend to try and answer questions narrowly rather than broadly and not reach major policy decisions until we need to. The first moment when this policy issue presented itself, I know I was

very clear in all of my verbal comments. And the first time I was asked to respond in writing, I responded as I indicated at this hearing. So the only time the Office of Management and Budget has ever indicated its position on this issue has been consistent with what I testified to.

So sometimes letters are taken out of context and don't necessarily reflect the full circumstances. I hope I have clarified that a little bit in this testimony.

Mr. CHAMBLISS. Well, I think you have, and I guess we could argue about what was said and what wasn't said. I don't know if that is material. We understand what your position is, and I think that is fair enough.

If I misunderstood you in saying that you don't think this is the right direction for us to go in and that you are willing to try to work to resolve something that is mutually agreeable to the administration as well as to Congress, I would hope that you would be willing to work with Mr. Nussle and Mr. Cardin and Mr. Minge to try to resolve whatever problems you have with the process, because I think we are headed down the right track.

This may not be a perfect bill, but, Jack, I would hope you all are not going to be walking down the road with blinders and saying you are just not going to be willing to cooperate, period.

Mr. LEW. No, I certainly hope there is no impression of a lack of willingness to cooperate. We responded to every request for participation in conversations and commenting on ideas. To my knowledge, there has been no invitation for us to participate that we haven't accepted, and we have even offered some of our own ideas when they weren't invited. So we have been part of the discussion.

To the extent that there are very serious concerns with this bill, I tried to identify them in my opening remarks. The most serious concerns are on this matter of weakening PAYGO and on the question of the automatic continuing resolution. Those are very fundamental problems. But we have addressed fundamental problems before where one can work through differences. I am not saying there is absolutely no way this could be worked through. I was trying to be very careful in responding to Congressman Spratt's question to indicate this is an early stage in the process. There should be no misunderstanding of how strongly we view the bill as it stands now, but we are not anxious to get into a big fight early on. If there are discussions that would be constructive, we are always pleased to participate.

Mr. CHAMBLISS. Thank you.

Mr. SPRATT. Mr. Chairman, in fairness to Mr. Lew, I asked that question because I knew the administration had strong objections, and I think everybody needs to know that. In moving forward, it would be a lot more arrogant to have this happen at the 11th hour than to happen right now. Everybody needs to be on notice that the administration has strong objections to some of these provisions, and it may influence or affect our efforts to work toward some common ground.

Mr. NUSSLE. Would the gentleman yield? I understand that because you have the letter. The thing that is interesting to me about this, and I understand that words can be taken out of context, but I don't think actions can.

The current administration's budget proposal that was sent up here to Capitol Hill had—I mean, unless somebody can describe to me how it is going to work, needed a very dramatic change in PAYGO in order for it to take effect. So I understand that now, as a result of this bill, and in fairness, we need to have in discussion, you and I talked about that.

But to come up here and to suggest now all of a sudden that well, you know, we don't like changes in PAYGO, we kind of like the way PAYGO is now, I think is a little bit strange when their proposal in and of itself had to have dramatic changes in PAYGO to be realistic.

Mr. SPRATT. Those changes took place after Medicare and Social Security were made solvent.

Chairman KASICH. There is no end to this movie, huh? This is like one of those movies you watch over and over and over again.

Jack, you don't want to say any more now, do you? You already have Saxby stirred up. That is a prescription for total failure. We got 3 or 4 votes. How do you want to proceed? Jim, do you have anything you want to say to Jack? Why don't you go ahead and ask your questions.

Mr. NUSSLE. I have a couple of quick things, and I suppose you can respond in writing too. But the biggest thing I have a question about is in your testimony you were very—you were not critical, but your comments were—they were critical, and your comments were directed at about just about every portion of the bill, except you kind of let go the whole notion of joint resolution. As you know, I think the administration has been supportive of a joint resolution concept in the past.

Is that something just as we discussed this and begin our first opportunity here today, is that something that the administration is interested in?

Mr. LEW. I think it is fair to say we are interested in it, and have in the past supported the idea. In the context of this bill, I had concerns when I read all of the different provisions, that there was the risk of pushing the business of the year to the end. I am raising that concern not to say—

Mr. NUSSLE. In this bill.

Mr. LEW. In this bill. In the context of sort of an overall discussion of budget process, the notion of a joint resolution is attractive from a White House perspective; having the President involved in the process, if it can work, is attractive, yes. I am just suggesting as you work it through, as you go through the mechanics, you have to look at the Congressional side of it and make sure everything isn't backloaded.

I am not opposing the idea. I am trying to suggest there is a need to fine-tune the approach to make sure that it isn't the enemy of the good.

Mr. NUSSLE. On emergencies, we took your definition. In the bill, you were critical of the definition. But yet we took the definition that you wrote, that OMB wrote.

Mr. LEW. The definition of emergencies was actually put forth by Director Darman during the Bush administration. We have continued to use it as our guidelines for analyzing emergencies, and I think it has served us well.

Mr. NUSSLE. The buck stops here, because it has been in your memorandums to your administration.

Mr. LEW. That is right. I was just giving the lineage of it. I wasn't walking away from it. I have defended the criteria.

Mr. NUSSLE. You walked away from it in your testimony is the reason I was concerned.

Mr. LEW. I think there is a difference between administrative determinations and statutory procedures. If you look the at the experience we have had even this year, the Central America emergency, the agriculture emergency, they were included in the President's budget. They have been up here since the first week, February. Today hopefully the Senate will pass it, but they may or may not. They haven't acted yet. That is a long time.

I think that if you look at the items in this emergency, there is not an item in it that doesn't meet all of the criteria.

Mr. NUSSLE. In the current bill?

Mr. LEW. I am talking about the proposal the President set forth. The delay in considering the pieces that the President sent forward just suggests that if you put hurdles in the way, you can lose the opportunity to address emergencies. As you create multiple bodies that rule on definitions of emergencies, I am just concerned about delay.

Chairman KASICH. There is 4½ minutes to go. Paul wants to ask a question. What we will do is let you go. We have four votes. Then we will come back and take the panel.

Mr. RYAN. If I could ask you quickly, Jack, if you could maybe submit your response in writing, I see a discrepancy in your budget with respect to PAYGO. I have heard you mention that you want PAYGO to stay as it is.

Could you reconcile that comment with the fact that it appears that the administration is using tax increases to offset discretionary spending increases, which is a violation of PAYGO? Specifically your budget contains about \$154 billion in spending increases in discretionary programs, partially offset with \$68.9 billion in tax increases, which cannot be used to pay for the other, by PAYGO's definition. Even if we are going to go vote, could you please outline that?

Mr. LEW. I would be happy to respond verbally or in writing. I think under the scoring rules, our interpretation is perfectly consistent with current law.

Mr. RYAN. Under CBO scoring, the fact is that PAYGO has been breached.

Mr. LEW. I am looking to the Chairman for guidance on the committee's schedule.

Chairman KASICH. We have your response. You think what you are doing is OK.

Mr. LEW. I was going to offer a more eloquent explanation.

Chairman KASICH. Leon is watching you. He would be very proud of this. We appreciate your coming.

I would just say to you that I wish you would privately get together with Mr. Cardin and Mr. Nussle and Mr. Minge and tell them whether you really are interested in working something out or not, because we are just—we don't want to play games. We can decide what we are going to do. Let's just try to get that resolved.

You don't need to go on the records, just give them—jingle their phone late at night and tell them where you are.

We will stand in recess and come back for the last panel.

[Recess.]

Mr. CHAMBLISS [presiding]. All right, we will proceed now with our third panel. Let me just apologize to the panel and tell you all we appreciate very much your patience with us. Hopefully we will be able to proceed forward with this panel without the interruption of a vote. Obviously we never know that.

First of all, let me just recognize and welcome former congressman John Rhodes from Arizona. John, it is a pleasure to have you here. Is a pleasure for me to meet you. I appreciated your comments earlier as we were talking with the fact that you were here when the original Budget Control and Impoundment Act was passed in 1974, and you were a leader in that process.

We appreciate your being here and would welcome any comments you might like to make to the committee here today.

Mr. RHODES. Mr. Chairman, I thank you for that. I certainly appreciate the opportunity to appear before this committee. As you have said, I was on the committee that the Speaker put together to study the possibility of a congressional budget. It took awhile, but we were getting aware of the fact that what the Congress did was to take the President's budget and either enact it in parts or in whole without looking ahead as to what we were really doing to the economy of the country and what we were doing with regard to budget deficits or lack of deficits in the future.

So that was really the main reason that the congressional budget process was born. I have to tell you, when we finished it, we were well aware of the fact that the act was faulted in some ways. But there was a legislative situation at that time consisting mainly of the fact that practically every committee chairman thought that this was a terrible invasion of his turf and there had to be some compromises made that weakened the whole thing.

Nevertheless, I am well aware of the fact that if we didn't have this Budget Committee and if we didn't have the budget process, I think that the fiscal situation of the government would be much worse than it is today.

Now, I am not saying I like what it is today, but I think I would be safe in saying that I like it a lot better than the way I would feel about it if you weren't doing what you are doing.

So I do want to congratulate the committee. When I got out of Congress, I became a co-chairman of the Committee for a Responsible Federal Budget, and I learned an awful lot about the things that go into budget and budget preparations from Carol Cox Wait and Rudy Penner and a lot of the really good professionals who we have working on the budget.

Again, I want to thank you. I was on the first Budget Committee. At that time the law provided that the leadership of the two parties would be represented on the committee. Since I had been on the committee that put the act together, I wanted to be on this committee, and I was.

I came to realize that the job was so big that I couldn't very well be minority leader and also carry out my duties as a member of

this committee. I reluctantly gave up my position, but I still have a lot of interest in what you are doing and how you are doing it.

I congratulate you.

Mr. CHAMBLISS. Thank you, John very much. You have been a real pioneer in the budget process, and we appreciate your insight. Again, thank you for being here today.

Our panel members are really no strangers to this group. Carol Cox Wait, of course, is president and CEO of the Committee for a Responsible Federal Budget. Carol, thank you for being here. John gives you all the credit for everything he knows about budgets, so we expect great words of wisdom from you. We know that will be forthcoming.

Our friend, Dan Crippen—certainly Dan is no stranger to us, and, as Director of CBO, we are always glad to have you visit with us.

Mr. Rudy Penner, a former Director of CBO, Mr. Penner, your knowledge and insights into the budget process are well-recognized, and we thank you for being here today.

Robert Greenstein, executive director of the Center for Budget and Policy Priorities, again, your knowledge of the budget process is known to all of us, and we thank all of you for being here.

STATEMENTS OF DAN CRIPPEN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE; RUDOLPH G. PENNER, FORMER DIRECTOR, CONGRESSIONAL BUDGET OFFICE, SENIOR FELLOW, THE URBAN COX WAIT, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET; AND ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. CHAMBLISS. Carol, we are going to start with you and just proceed in this order, unless somebody has a scheduling problem. If you do, let us know. But if not, that is the order we will proceed in.

So, Carol.

STATEMENT OF CAROL COX WAIT

Ms. WAIT. Mr. Chairman, thank you.

Mr. Chairman, Mr. Spratt, Mr. Nussle. Mr. Cardin isn't here. Mr. Minge, with whom I have worked over the years a great deal on budget process, thank you for having me here today. The Committee for a Responsible Federal Budget originally was formed out of concern for sound budget process. Very soon after we organized persistent record peacetime deficits diverted our attention and have continued to consume a lot of our time ever since.

But the underlying organizing principle of our organization continues to be budget process. It will continue to be so, as long as we stay together, and I am here today on behalf of our Republican co-chairman, Bill Frenzel, who used to be ranking member of this committee; on behalf of Tim Penny, our Democratic co-chairman, who tried mightily to arrange his schedule so he could be with you, but could not; and the other members of our board who collectively have hundreds of years of experience with the congressional budget process.

You have my written testimony, and I am not going to bore you by reading it to you. I want to take a little bit of time to discuss some of the issues that that testimony touches on, using as my focus point H.R. 853. As I understand it, this is the vehicle you all will be using. It is the product of your bipartisan task force led by Mr. Nussle and Mr. Cardin, working with Mr. Goss.

It is a good bill and we can support it. It does not go as far as we would like. To illustrate ways in which we think it could constructively go further, I will from time to time refer to proposals by Representatives Barton, Stenholm, Minge and others, as well as to some proposals by Senator Domenici, the Chairman of the Senate Budget Committee.

In three major areas, H.R. 853 proposes highly constructive changes. Changes such as these, or something similar, simply must occur if we are going to continue any sort of budgetary discipline in this brave new world of budget surpluses. The first area is a joint budget resolution.

Until the two policy branches of government finally reach agreement on one budget for the United States Government, the government really doesn't have any budget at all. That condition ought to be unacceptable to you and to all Americans. A joint budget resolution would bring real political accountability to the budget process and it could assuage, if not eliminate, most, if not all, of the problems that we describe as baseline problems.

We would prefer to see your joint budget resolution spin off when Congress adopts a concurrent resolution on the budget, as would have been the case under a bill introduced in earlier Congresses by Representatives Panetta and Spratt.

Given the simplified form of your proposed joint resolution, we believe this to be entirely feasible. We believe Members would have no difficulty understanding the substance of the law to be sent to the President for signature. This approach would permit you to confine matters essential to internal congressional deliberations and policing of the budget to the concurrent resolution, and to limit the joint resolution to overall fiscal policy plans and enforcement matters on which Congress and the President must agree.

Somebody has to do something soon to cauterize what Bill Frenzel calls "the running sore," which is the so-called emergency loophole in today's budget process. The emergency part of appropriations enacted at the end of last year, \$22 billion, was more than the total budgets of all but 10 States in the country. That is outrageous.

We support your proposals to address the emergency problem. We wish you had gone further and done more to dampen the instinct of State and local officials to get all they can while the getting is good when they have a disaster. We address those issues in more detail in our written testimony.

I would associate myself with Rudy's concerns about how you establish the level for emergencies. We do prefer the approach that Rudy suggests, which is to take some percentage of discretionary appropriations available each year and set that amount aside for contingencies, rather than the 5-year rolling average. We are concerned that the 5-year rolling average will give you a constant up-

ward bias in the amount of money that you set aside for emergencies.

As I say in my written testimony, budgeteers tend to react viscerally and negatively to anything that spends money automatically. However, our committee has concluded that something like your proposed automatic stopgap spending bill is much the lesser of two evils. The greater evil being the current state of affairs in which the administration and individual Members may use the threat of a government shutdown as a lever to help get their own priorities funded.

Every time one Member gets their own priorities funded, every time Congress acquiesces to an administration priority, there arises a need to take care of somebody else's priority. That creates constant, inexorable upward pressure on total Federal spending.

We admit to the committee of a bias, all things being equal, toward a budget process that operates somewhat as a constraint. We come to this conclusion reluctantly, but now we are enthusiastic supporters; and we commend to you the idea of the automatic continuing resolution. We would prefer to see it at a level lower than last year's level. We deal with that in more detail in our written testimony.

With regard to PAYGO, we note in our written testimony that Mr. Barton, Mr. Minge, Mr. Stenholm were prepared to introduce language in 1997 very similar to that in H.R. 853. Our organization can support that language today.

Given time and space to think, however, about a world in which we may actually have budget surpluses over and above Social Security surpluses, and to think about how the world might work if you really did have a real budget represented by joint budget resolutions, it seems to me that you could write into the joint resolution each year, or each biennium, the levels above or below which the PAYGO proscriptions would apply.

I guess the older I get, the less comfortable I am with rigid rules that try and make value judgments today and impose them forever on future Congresses. One virtue of having a real policy document as a budget is that when Congress makes other fiscal policy decisions, you can also decide what part of the surplus ought to be available in the upcoming budget window and what part of it ought to be subject to PAYGO restrictions.

Also I would suggest to you that you consider taking technical changes off the table and limiting permissible adjustments for changes in economics to current law revenues, when you determine whether or not the use of PAYGO balances will trigger sequestration. Even that may not be the perfect formulation, but you should seek an approach that captures as contemporaneously as possible changes in economics and enforces policy.

I think that the mechanism, as described in H.R. 853, is somewhat weaker than it might be in that regard.

The foregoing discussion serves to underline one of the strengths of the joint resolution, the ability of Congress and the President to agree on policy, and enforce the policy that they set until they take responsibility for changing it.

There is no right or wrong level of Federal spending. There is no right or wrong level of revenues. There is no objective case, no sci-

entific test you can do, to say that the government ought to be 21 percent of GDP or 19 percent.

The right amount is the amount that Congress and the President agree to and are willing to be held accountable for at any given point in time. If you have a multiyear joint budget resolution that contains caps for 3 or 5 or 6 years at a time, I suspect that those caps in time will become a serious incentive for Congresses and Presidents to enact new budgets, because priorities will change over time.

You may want a different disaggregation of the caps. You may want different levels of caps. But the caps themselves over time will create a compelling incentive for Congresses and Presidents to adopt new budgets.

I want to make a comment here, also, about three major areas where we would strengthen budget process reform further. All three get somewhat more detailed attention in our prepared testimony, but I feel compelled to mention that we hope to see progress in the future toward biennial budgeting, entitlement caps and enhanced rescission.

Especially in the case of enhanced rescission, we are hard pressed to understand why a Congress that enacted line item veto legislation would not, the court having struck down that law, want to enact something that operates as a kind of a proxy for the line-item veto. We do think that Congress should vote up or down when the President proposes to rescind money.

For now, however, let me say that you and your task force and Mr. Goss have done an outstanding job. We support your efforts. We hope to work with your staff to write better budget process into law, and we do need to write better budget process into law.

Thank you, Mr. Chairman.

Mr. CHAMBLISS. Thank you.

[The prepared statement of Carol Cox Wait follows:]

PREPARED STATEMENT OF CAROL COX WAIT, PRESIDENT OF THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Mr. Chairman, Mr. Spratt, thank you for inviting me to testify today on behalf of the Committee for a Responsible Federal Budget. Our group originally was formed out of concern for sound budget process. Our Republican Co-Chairman, Bill Frenzel, recently testified before the Rules Committee on the subjects before you today. Our Democratic Co-Chairman, Tim Penny, wanted very much to be here today. But your schedule and Tim's could not be made to mesh, so you get me. Budget process reform has been a major focus for our organization for more than a decade. We have worked with the American Business Conference, The Business Roundtable, The Concord Coalition and many other groups—and with literally hundreds of Members—to formulate recommendations to make the budget process more effective, more efficient and more accountable. We are impressed with the work of your task force. We are glad to have this opportunity to share our views with you. We have submitted written testimony for the record. I will take a few minutes today to highlight that testimony.

HISTORY

The Congressional Budget and Impoundment Control Act was born of frustration:

- First, over President Nixon's exercise of impoundment authority; and
- Second, that Congress had no mechanism, nor vehicle, to articulate a coherent alternative to the President's Budget proposals.

IMPOUNDMENT

Ironically, the Federal Courts effectively eliminated presidential impoundment authority before the Budget Act became law. Presidents impounded appropriated funds for nearly two hundred years, and nobody sued.

When grantees, who anticipated receipt of Federal funds pursuant to appropriations President Nixon impounded did sue, however, Courts ruled that Presidents cannot unilaterally reverse the law. The courts found that it takes an Act of Congress to reverse an earlier Act of Congress.

Nonetheless, Congressional desires to put stringent limits on Presidents' ability to withhold appropriated funds provided powerful impetus to passage of the Budget Act in 1973.

COHERENT CONGRESSIONAL BUDGETS

Prior to the Budget Act, the President transmitted a budget to Congress. The President's budget was virtually disassembled, and the parts were sent to relevant committees. Appropriations Committees disposed of presidential requests for discretionary funds in at least thirteen separate bills each year (usually more). Committees of jurisdiction dealt with presidential proposals for new direct spending, or for changes to existing entitlements. Tax committees acted (or failed to act) on revenue proposals. Congress could not gauge the aggregate fiscal policy impacts of their spending and revenue decisions until after the end of the fiscal year, when Treasury reported actual receipts, outlays, deficits or surpluses and debt. Periodically, Congress acted to increase the debt limit, but debt limit votes simply recognize and accommodate past decisions after-the-fact.

Democrats controlled Congress. They believed that the President's budget provided a powerful advantage as it permitted the Administration to describe their entire legislative program and goals, in context, in one document. They believed that a congressional budget could mitigate that advantage.

REACTION

The impetus for congressional budget legislation was reactionary. There were few in Congress arguing constructively the need for a new budget process.

Ironically, fury over impoundment was a more forceful imperative, at that time and in the view of most Members, than the desire for a coherent congressional budget process.

The people who wrote the law labored to put these reactionary forces to good use. They tried hard to bring some order to Congressional decision-making processes. They were hamstrung by the imperative to protect all existing centers of power and to make the new process appear as benign as possible.

The drafters of the Budget Act knew the new process would not work. I know, because most have been on our Board, and they told me so.

EVOLUTION

The process described in the Budget Act was fundamentally flawed:

- First, it was iterative; and budgeting is by definition a distributive process;
- Second, it was unrealistic. There were too many budget resolutions; and the Act envisioned budgeting 1 year at a time. The first resolution did not really count. Reconciliation came at the end of the process and would have reversed work that consumed most of a congressional session. There was no effective enforcement mechanism.

- The Budget Committees had no legislative jurisdiction and no real power.

The process was supposed to be outcomes neutral—but large and rising deficits overshadowed all other fiscal policy concerns for the first two decades under the Budget Act, and Members soon sought to create biases in the process to encourage deficit reduction.

A series of deficit reduction initiatives that failed to produce advertised outcomes led to increased focus on enforcement.

For the first half of the 1980's, Congress used the "elastic clauses" in the original Budget Act to make the process more responsive to immediate concerns. In 1985, 1987, 1990, 1993 and 1997 they amended the law as well as the process and eventually achieved the desired outcome (budget balance) last year.

WHY REFORM THE BUDGET PROCESS?

There are four main reasons we are here discussing budget process reform:

- **Frustration.** Some, who accepted restrictive rules such as PAYGO when that seemed necessary to reduce the deficit or balance the budget, resent restraints on the allocation of some or all budget surpluses for new programs and or tax reductions.

- **Complexity.** The current budget process, having grown like topsy, is ridiculously complex. Duplication and overlap spawn redundancy and lead to conflict between and among those charged with disposition of the same issues at different points in the process.

You probably have, on this panel, a third or half the folks outside Congress who understand the budget process. This is a product of evolutionary change, of some changes codified in law, others buried in unanimous consent agreements, and some rules resulting from tacit understandings. It seems to many Members and staff that Congress is governed by arcane rules known to very few and subject to change almost without notice.

- **Disappointment.** The process rarely produces outcomes consistent with the promises made when Congress adopts a budget. Congress and the President rarely complete a budget cycle on time. Fiscal policy decisions seem never to be final. Members tire of debating the same issues over and over again.

- **Future Challenges.** We are getting older! This committee is keenly aware of building budget pressures. Budget surpluses are good news in every way except for what they mean to fiscal discipline. Discretionary spending caps are under fire. "Emergencies" are now welcome events because they provide the opportunity to spend more. Medicare changes enacted in 1997 are being attacked for saving too much. The budget process cannot withstand these pressures because it focuses on short-term needs, not long-term challenges.

The reasons listed above may provide the push necessary for Congress to consider serious budget process reforms, but we think there are many more, and far more compelling, reasons to do so.

- **One budget for the U.S. government.** There really is no such thing as a budget for the United States Government. The two policy branches of government operate off of separate budgets. The absence of one budget is the principal cause of most so-called "baseline" problems. The absence of an agreed budget invites confusion and undermines accountability. We believe it is imperative for Congress and the President to agree to one budget and agree to be bound by that blueprint until they can agree on a new version.

- **Accountability.** Political leaders should be accountable for decisions about the size and role of government, deficits or surpluses, rising or declining national debt, and tax burden, i.e., Federal fiscal policy. The current budget process fails this test.

- **Better enforcement.** Current budget enforcement mechanisms are designed almost exclusively to reduce the deficit. Often, the focus is wrong. The process advantages past decisions at the expense of current and future priorities.

SPECIFIC REFORM PROPOSALS

It is our understanding that this hearing is to focus on H.R. 853, introduced this year by Mr. Nussle (R-IA), Mr. Cardin (D-MD), and Mr. Goss (R-FL)—the product of your Budget Committee bipartisan task force on budget process reform and Mr. Goss' Rules Committee Process Subcommittee. I will also refer the pioneering work Representatives Barton (R-TX) and Stenholm (D-TX) have done in the last two Congresses and to some proposals by the Senate Budget Committee Chairman, Mr. Domenici (R-NM). I would be remiss, if I did not mention that the Barton-Stenholm bills owe a lot to the thought and work of our Democratic Co-Chairman, Tim Penny, when he was a member of this august body.

The following comments, however, are organized around the form followed by the Highlights of your Task Force bill, H.R. 853.

JOINT BUDGET RESOLUTION

Replacing the concurrent resolution on the budget with a joint budget resolution is absolutely essential to make the budget process real, meaningful, enforceable and accountable.

As noted above, the United States government today operates without a real budget. Congress and the President agree each year on appropriations for discretionary programs. But discretionary spending represents a steadily declining proportion of total Federal spending. From time to time, Congress and the Administration agree to changes in some existing direct spending programs and /or tax laws and policies, to conform to agreed budgetary outcomes. Those changes almost always take the form of reconciliation bills. But the President and Congress do not agree

on aggregates for receipts and expenditures, deficits or surpluses and debt—much less on the allocation of spending among competing priorities.

A joint budget resolution would put to rest most of the problems generally attributed to baselines.

A joint budget resolution would force the policy branches of government to reconcile your differences earlier—rather at the end of each session of Congress.

A joint budget resolution containing binding multi-year expenditure limits could create a compelling incentive for future Congresses and Presidents to reach budget agreements in a timely fashion. The Committee for a Responsible Federal Budget believes strongly that joint budget resolutions should contain nominal dollar expenditure limits for five or 6 years into the future. Continuing those limits in force until and unless a new joint resolution is adopted will help tremendously to prod Congresses and Presidents to reach agreement on new budgets in a timely fashion.

Reducing the number of budget functions required to be included in the resolution is a very good idea. We are not certain what is the optimum number. We are comfortable with the H.R. 853 construct—defense and non-defense discretionary, direct spending, and such other categories as may be deemed necessary (which could change from year to year).

EMERGENCIES

We are gratified that almost everybody is agreed we must do something to narrow (if not close) the so-called “emergency” loophole in the current budget process. The “emergency” portion of appropriations enacted at the end of the 104th Congress was equal to or greater than the total budgets of all but ten states in the nation. When Congress and the President agree to call something an emergency, they exempt that spending from the trade-offs that apply to appropriations subject to statutory caps. Is it any wonder, every time one of these bills comes down the pike, everyone wants to get into the act? Everybody would like to include their pet project, their highest priority, in this privileged category where it would not have to compete with anything else.

The provisions in H.R. 853 are a vast improvement over current rules for “emergencies”. Setting aside specific amounts tied to actual recent experience is a good idea. Budget Committee scrutiny of “excess emergency” proposals could bring more sanity to the process. We only hope, if these provisions are enacted, the Budget Committees follow all the proscriptions contained in the bill, with regard to any recommendations for emergency spending to be exempt from the caps. In this regard, we continue to believe that the additional safeguards contained in the Barton/Stenholm bills almost certainly will be needed to cauterize what our Republican Co-Chairman, Bill Frenzel, calls “one of the worst running sores of the current process”.

- So long as States can recoup 100% of emergency service costs in designated disaster.
- So long as the President unilaterally can waive the State match, and/or waive repayment of loans to pay required State match.
- State and local elected officials will be tempted to expand disaster and emergency needs to fill whatever resources Washington is willing to provide for those purposes.
- The purpose of matching requirements is to provide State and local officials incentives to use Federal resources as judiciously as they would use their own funds. Absent such restraints, Federal disaster assistance is “free money”. The pressure on Washington to provide ever more resources likely will continue to escalate and prove irresistible.
- And, when disaster areas seem to benefit from Federal spending for non-disaster purposes, they will deny similar treatment to other non-emergencies, for other constituencies may weaken.

In short, H.R. 853 adopts many of the provisions we believe can help limit the expansion of emergency designation to non-emergency items. But we fear that pressure may continue at the other end of the pipeline, and that pressure could undermine resolve in Washington, until and unless something is done to change incentives for State and local officials to get all they can while the getting is good.

ENFORCEMENT

We hope we misunderstand the enforcement provisions in H.R. 853 as they apply to discretionary spending caps. If the bill proposes to include in each joint budget resolution spending caps for the budget year only, we think that is a serious mistake.

As noted above, we are convinced that multi-year caps, enacted as part of each year's joint budget resolution, can create compelling incentives for Presidents and Congresses to reach agreement on subsequent budgets in a timely fashion.

Moreover, those of us who have been around since the beginning of the modern budget process remember how difficult it was to measure sensible the impact of fiscal policy decisions 1 year at a time. You need a budget window of at least 3 years—preferably 5 or 6 years—to get a real sense of the impacts of decisions you make for the budget year.

It will come as no surprise to most of you, the Committee for a Responsible Federal Budget supports caps for direct spending, as well as discretionary spending programs. We continue to support the construct included in the several bills introduced by Representatives Barton and Stenholm:

- Global caps for total direct spending;
- Discrete caps for large programs (Barton Stenholm define as \$20 billion per year or larger);
- Sequestration triggered by breach of the global caps;
- Sequestration affecting only those programs in offending categories (the ones that caused the breach).

INCREASED ACCOUNTABILITY

The 10-year sunset for new programs in H.R. 853 is a very good idea. We are less enthusiastic about separate debt votes.

ACCRUAL BUDGETING

By and large, keeping the government on a cash basis makes sense. Insurance programs are the exception that proves the rule. Here, H.R. 853 has it right. Accrual accounting makes sense for this category of activity, although budget technicians are concerned about estimating subsidies and other implementation problems.

REDUCING THE BIG SPENDING BIAS

Talk about transparency, most Americans would welcome a world in which we compare spending year-over-year.

It may be just as important, however, to compare spending 3 years from now to what we say those amounts should be in the budgets we adopt today. Thus, we urge two comparisons—one to last year; and the other against plan. This is especially important when you plan to increase spending for specific purposes—or to reduce/phase out a program. But, keep in mind that you will always have to have current law estimates for mandatory spending and revenues. Last year's level and the plan don't control outcomes in these areas. Whether it is called a "baseline" or not, you need to know where existing substantive law would produce different results than projected under a budget resolution.

AUTOMATIC STOP-GAP APPROPRIATIONS

Generically, budgeteers hate automatic spending. Why spend anything on old low priority programs? In this instance, however, the Committee for a Responsible Federal Budget concludes that automatic spending at reduced levels is the lesser of two unattractive choices. We would prefer an automatic CR at 95% of last year's level—or the lower of last year, the President's request, or latest House or Senate action—but last year's level is better than the alternative we have witnessed in recent years. Administrations and individual Members use the threat of government shutdowns as leverage to force others to accommodate their demands. The "others" almost always want something in return. This creates a clear bias toward ever higher spending. The threat that poses to budget discipline leads us to support the automatic stopgap spending approach.

PAY-AS-YOU-GO IN SURPLUS BUDGETS

This is one instance where you must ask yourselves: what biases do we want to build into the budget process?

We understand that Congresses and Presidents object to PAYGO as we know it in times of surplus. Why not spend some of the surplus for tax cuts, or new programs?

Joe Barton and Charlie Stenholm were prepared in 1997 to offer language similar to that in H.R. 853, and we were prepared to support it.

On the other hand, we raise the following question:

- If you enact a joint budget resolution, why not include in the resolution each year levels above or below which PAYGO will or will not apply? For example, the

resolution could exempt on-budget surpluses for PAYGO purposes by writing unified budget surpluses equal to Social Security surpluses into the resolution bottom line.

- One real advantage of joint budget resolutions is that they provide opportunities to write policies such as this into law—and to modify such policies as imperatives change.

However, we are inclined to be very cautious about any relaxation in fiscal discipline until Congress and the President address Social Security and Medicare reform. Projected surpluses may not be an unmixed blessing:

- Projected surpluses are projections. They could disappear if economic conditions deteriorate, but new spending or tax cuts enacted in the expectation that surpluses will be available to finance costs would go on and on;

- The longer-term outlook seems brighter, precisely because official projections assume surpluses will be used to retire debt and future interest costs. The longer-term outlook would look considerably less Rosy if substantially smaller amounts were used to reduce outstanding debt held by the public. The bigger the surpluses the better. Social Security surpluses are not enough to meet Social Security's future needs, let alone projected Medicare requirements. If Social Security surpluses are not "saved" (that is, used to reduce outstanding publicly held debt), then, economically speaking, you might as well not have them at all.

OTHER REFORMS NOT IN H.R. 853

Biennial budgeting. Barton-Stenholm and Domenici both would enact biennial budget and appropriations processes. The Committee for a Responsible Federal Budget continues to support that approach and we recommend you consider adopting it as you go further with budget process reform.

Enhanced rescission. We do not understand why you pass up this opportunity to put in place tough enhanced rescission language—in the place of line-item veto struck down by the Court. Our Committee believes that Congress ought to be forced, at least, to vote up or down on the specific items President's want to rescind (especially as Presidents almost always argue such spending is wasteful or unnecessary). We encourage you to give this issue careful consideration. You may not have another opportunity soon to do something about it.

Entitlement Caps. We harbor no illusion that this Congress likely will jump off this cliff but the Committee for a Responsible Federal Budget continues to be convinced that expenditure limitation is the key to accountable budget process.

There is no objectively right level of public expenditure; but Congress and the President should agree on the appropriate level when you adopt a budget; and you should be bound by that limit until and unless you adopt a new budget or otherwise revise it in law.

CONCLUSION

In conclusion, our committee and I want to congratulate Mr. Nussle, Mr. Cardin, and Mr. Goss—and all the Members and staff who worked with them to produce H.R. 853. You have done a good job. You have not done all we would like. Assuming, however, that you do not mean to eliminate multi-year caps for discretionary spending, we can wholeheartedly support the bill.

Mr. Chairman, this is as important as any project your committee likely will undertake in the course of this Congress. The budget process as we know it is strained to adjust to the pressures put upon it as a result of radically changed fiscal policy reality. Congress cannot go back to the pre-1973, no-process days.

Budget processes are certain to frustrate—no matter how well conceived. After all, budget processes are designed to constrain the political process. And no budget process ever will be 100 percent effective to produce promised outcomes.

Budget processes are like policemen. The only way you would know how effective is the cop on the beat would be to give him a vacation. Similarly, the only way to measure the success of any budget process is to consider what likely would have occurred in its absence.

Today, we think you are moving toward a highly constructive answer to that question. By reforming the process, replacing it with a more effective model. We look forward to working with you in that effort.

Thank you.

Mr. CHAMBLISS. Mr. Crippen.

STATEMENT OF DAN L. CRIPPEN

Mr. CRIPPEN. Thank you, Mr. Chairman.

I want to join those who already this morning have congratulated the task force—particularly Congressmen Nussle, Cardin, and Minge—for their work on the bill thus far and, I am sure, for the many more hours they are going to spend on it. The bill responds to many of the concerns and complaints about the budget process that have been voiced by Members of Congress and others in recent years.

Before I get to the content of the bill, Mr. Chairman, I would like to return to where we started, these many years ago. It is occasionally useful to remember from whence we have come, and this might be one of those times.

As many of you know, the Budget Act was actually titled the Budget and Impoundment Control Act. Its genesis was the impoundment of appropriations by President Richard Nixon. The act was the Congress's response, enacted over the President's veto. The budget process and its institutions—this committee and the Congressional Budget Office—were born of the constitutional tensions over spending. The act was designed to reassert the control of Congress in developing and executing the budget.

Those tensions and that purpose still exist today. It is not surprising to hear the Director of the Office of Management and Budget [OMB] endorse the parts of the bill that would enhance Presidential power and object to those that might diminish it. Jack could accurately characterize the comments I am about to make using the same framework but with the opposing conclusion.

Ultimately, the budget process, like any other process, does not determine the outcome; it merely facilitates it. It provides, if you will, an institutional rumble strip in the road to wake you up, to remind you of what you are doing. But changes to the process can alter the balance of power at the margins, and that is what brings us here today.

I would only caution that what appears attractive at the moment—shifting power in even subtle ways—can have unintended consequence down the road. Although the process is limited in its ability to promote or prevent any particular outcome—indeed my distinguished colleague and predecessor to my left on the panel today reportedly once said, “The process is not the problem; the problem is the problem”—I am not as sanguine as Jack about how well it has worked since 1990. We can all take some comfort from the current outlook, but we also know that most of the improvement is attributable due to the performance of the economy and the growth of revenues, not to the performance of the process.

Since 1990, we have witnessed a government shutdown; that, presumably, no one wants to repeat. A change in process might help prevent another shutdown. The Balanced Budget Act of 1997 was less a product of the process and much more a product of the politics. Last year the Congress failed to achieve a budget resolution. Most recently, the designation of emergency spending has grown dramatically and threatens to remove fiscal discipline.

Many of you have expressed, even this morning, disgruntlement with the current supplemental. The OMB Director, while extolling the virtues of the current system, presented a budget to you that exceeds the discretionary appropriation caps by some \$30 billion. So it will take a great deal of discipline by the Congress and the

President to prevent the surplus from being spent, no matter what budget process is in place. But recent history suggests that there is certainly room for improvement.

Turning now to the legislation before us today, I will summarize the major point of my prepared statement. First, a joint budget resolution inviting the President to negotiate early in the year on the budget has merit but is obviously no panacea. If there were wide disagreements, the joint resolution might actually delay the process. If the disagreements were not wide, a joint resolution would be unnecessary.

Whatever its merits, that provision would present a major shift from the original purpose underlying the Budget Act—to give the Congress, through the adoption of a concurrent resolution on the budget, a means to establish and enforce its own budget priorities, independent of the President.

Second, an automatic continuing resolution [CR] has merit, especially to avoid a government shutdown. It would, however, bring an end to one of the only action-forcing deadlines in the budget process, giving an important legislative advantage to defenders of the status quo over those who would prefer dramatic changes in spending, up or down. In the current political climate, an automatic CR would appear to diminish the power of the President in achieving his spending priorities.

Third, the bill would clarify the pay-as-you-go [PAYGO] process to affirm that it is possible to enact legislation that increases mandatory spending or cuts taxes without offsets up to the amount of the projected on-budget surplus for the year. That clarification would not jettison the overall budgetary discipline that it now imposes, since legislation causing an on-budget deficit would still have to be offset. Further, since PAYGO is enforced one year at time, PAYGO legislation could in later years require legislative offsets or even trigger a PAYGO sequestration if sufficient on-budget surpluses were not also projected in the sequestration reports for those years.

Because the PAYGO requirement is enforced with OMB estimates, the future use of this change would rely on the administration's budget projections. The current budget resolution makes it clear that the Congressional Budget Office is to score PAYGO in a fashion consistent with the clarification requested in this bill.

Fourth, one of the most vexing reform issues facing lawmakers now is how to achieve a proper balance between the rigors of the budget process and the need for effective program oversight. As of the beginning of this year, nearly one-fifth of the total discretionary appropriations for 1999 that funded programs for the underlying authorizations had expired.

In 1993, the Congress enacted the Government Performance and Results Act [GPRA] to require Federal agencies to establish strategic plans and performance measures. Regular legislative review of Federal programs, as envisioned by the bill before you today, may help to support the goals underlying GPRA.

Fifth, insurance reform is terrific in theory but difficult in practice. One of the major challenges posed by the proposed reform is the difficulty of assessing future losses under various Federal insurance programs. Although some forms of insurance that have

close analogs in the private sector might prove relatively easy to make, others, such as deposit insurance, would probably be very difficult. The 6 years envisioned for implementation is probably a minimum, although some types of insurance might be scored before that.

Sixth, if you were to do nothing else, simply codifying the definition only of emergency spending would be helpful. Without a definition of what constitutes an emergency, it matters little what else you do.

Finally, the extensive changes proposed by the bill also suggest a broader issue of budget process reform that I think should be addressed. It is time to convene a new Commission on Federal Budget Concepts. In general, Federal budget concepts are based on the recommendations of the 1967 President's Commission on Budget Concepts. Although the Commission's guidelines continue to apply broadly in the budget process, they do not address certain fundamental issues that lawmakers and budget scorekeepers currently face. For example, various proposals to reform Social Security, especially those that call for personal retirement accounts, raise thorny issues about the appropriate budgetary treatment. Further, the dividing line between Federal spending and revenue law has become blurred, as evidenced by the increasing use of refundable tax credits as a device for expanding budgetary resources. The use of public/private partnerships, such as those involving military housing and various lease-purchase arrangements, also raises questions of budgetary treatment for which the Commission's original recommendations provide little or no guidance.

These and other issues put budget scorekeepers in a difficult position as they seek to apply outdated or incomplete concepts to novel policies. That situation suggests the need to reevaluate current budgetary concepts and to try to reach a consensus on changes that will make them clearer, more comprehensive, and more effective.

I encourage the committee, as part of the process of reviewing this bill, to consider that enough has changed in the past 30 years to warrant another look at those rules as well.

Thank you, Mr. Chairman.

Mr. CHAMBLISS. Thank you, sir.

[The prepared statement of Dan L. Crippen follows:]

PREPARED STATEMENT OF DAN L. CRIPPEN, DIRECTOR, CONGRESSIONAL BUDGET
OFFICE

Mr. Chairman, Congressman Spratt, and members of the committee, thank you for the opportunity to testify on H.R. 853, the Comprehensive Budget Process Reform Act of 1999. That bill reflects the work of the committee's Task Force on Budget Process from the 105th Congress, which was headed by Congressmen Nussle and Cardin. It responds to many of the concerns and complaints about the budget process that have been voiced by Members of Congress and others in recent years.

The task force, which worked closely with the House Rules Committee, held several hearings on major reform issues and heard from many witnesses. The members of the task force should be commended for their hard work and thorough analysis of these thorny budget reform issues. They have produced a wide-ranging and ambitious measure.

The major purposes of H.R. 853 are to encourage early budget agreement between the President and the Congress, improve planning for emergencies and budgeting for Federal insurance, reinvigorate legislative oversight and review of Federal programs, end the threat of disruptive government shutdowns, and allow more flexibil-

ity in the use of budgetary offsets. It would seek to accomplish those goals by converting the budget resolution into a measure that would become law, creating a reserve-fund procedure for emergency spending, establishing new requirements for the review and reauthorization of Federal programs, moving toward an accrual basis of accounting for Federal insurance programs, putting in place automatic continuing appropriations, modifying pay-as-you-go (PAYGO) rules to clarify the use of projected on-budget surpluses, and making other changes.

My testimony will make the following major points about H.R. 853:

- Enacting the budget resolution into law could change the Congressional budget process into a joint legislative/executive budget process. That change might have significant advantages, including potentially swifter resolution of policy differences between the President and the Congress and more timely action on budgetary legislation. However, when broad policy differences were substantial, the President could veto the joint budget resolution, and a budgetary stalemate could emerge. In that case, fallback procedures in the bill would allow the Congress to adopt a budget resolution under the legislative-only process that is currently in place.
- Automatic continuing appropriations would address a major problem in the budget process: the annual threat of a government shutdown caused by lapsed funding authority. That change is intended to eliminate the funding crisis that awaits policymakers and Federal agencies each year and may also have beneficial effects on the legislative process. However, enacting automatic funding for discretionary programs would also remove one of the true action-forcing deadlines in the budget process and could favor the continuation of funding at the current rate.
- The procedures for an emergency spending reserve and the new accounting provisions for Federal insurance have the potential to improve planning for unanticipated expenses and provide explicit information on long-term budgetary commitments. Whether those changes would be likely to improve budgetary control and accountability is unclear.
- Proposed changes that would require the periodic review and reauthorization of Federal programs might also help promote the goals underlying the Government Performance and Results Act of 1993.

OVERVIEW AND ANALYSIS OF H.R. 853

The following is a brief overview and analysis of the major features of the bill.

CONVERTING THE BUDGET RESOLUTION INTO LAW

Title I of the bill would convert the concurrent resolution on the budget into a joint resolution that would become law. April 15 would remain the target date for final enactment. The contents of the joint resolution would generally be restricted to aggregate budget levels (total spending, revenues, deficit or surplus, and debt) and broad spending breakdowns for mandatory, discretionary (defense and non-defense), and emergency spending. Functional categories of spending and reconciliation instructions would be included in the accompanying committee reports instead of in the text of the resolution itself. If the President vetoed the joint budget resolution, the Congress would be authorized to adopt, under expedited procedures, a concurrent resolution that would serve as the budget resolution for Congressional enforcement purposes (points of order, committee allocations, and reconciliation instructions).

Providing for a budget resolution in law could make overall budget agreement with the President a primary focus of the Congressional budget process. Whatever its merits, that provision would represent a major shift from the original purpose underlying the Congressional Budget Act of 1974. That act was intended to give the Congress, through the adoption of a concurrent resolution on the budget, the means to establish and enforce its own budget priorities independent of the President.

Some Members and observers trace the recent record of budgetary delay and gridlock to the budget process set forth by the 1974 act. But it is not clear that the existence of an independent Congressional budget process has exacerbated delays. It is also not clear that carving out a formal role for the President in that process will foster overall agreement and pave the way for timely action on budgetary legislation. However, in years when budgetary conflict between the President and the Congress is intense, having a formal mechanism for reaching broad agreement may have advantages. As proponents point out, converting the budget resolution into a law effectively formalizes the informal budget summitry of recent decades, but it has the added advantage of scheduling summits early each year. When overall differences were large and could not be bridged, the President would veto the resolution and the Congress, using the bill's fallback procedure, could move forward with its own alternative plan much as it does now. When overall differences were small,

the statutory budget resolution would seem to make little difference one way or the other.

By formalizing budget summitry, however, the joint budget resolution might also change the dynamics for reaching agreement. Budget summits have been informal and irregular, and the number and composition of the participants have varied. Budget summits have not occurred every year and have not always led to final agreement. In some years, particularly following multiyear budget agreements, they have not been needed. In others, the magnitude of the differences precluded agreement. Simply formalizing the process through a joint budget resolution would probably not make overall budget agreement easier, and it might simply highlight and sharpen differences by eliciting a veto when agreement could not be reached.

Because of the bill's fallback procedure, the Congress would still be able to adopt a concurrent budget resolution in the event of a veto. That provision would guard against some of the procedural delays on budgetary legislation that the Congress would face because of an impasse with the President over the budget resolution. However, since the fallback procedure would not go into effect until a veto occurred, the Congress would still have to reach its own consensus on the budget resolution before it could move forward under that procedure.

The bill would simplify the budget resolution principally by removing functional categories of spending and reconciliation instructions from the text of the resolution and placing them in the committee report. That change could help to better focus Congressional debate on broad budget priorities. It would also remove provisions of the resolution that could create further obstacles to final agreement with the President and might have uncertain meaning if enacted into law. However, such a change could also make the resolution less clear as a guide to policy and might raise questions about the status of reconciliation instructions to committees under House and Senate rules.

CREATING A RESERVE FUND FOR EMERGENCIES

Title II of the bill would set up a reserve fund for emergency spending that is intended to encourage planning for emergencies, subject emergency spending to budgetary constraints, and establish criteria for emergency spending. The current exemption for designated emergencies from enforcement under the discretionary caps and PAYGO would be repealed.

The bill provides a statutory definition of emergency. In general, it defines a budget emergency as any unanticipated situation that requires Federal spending to mitigate, prevent, or respond to "loss of life or property, or a threat to national security." The President's budget and the joint budget resolution would be required to include emergency spending levels as a separate spending category (divided into discretionary and mandatory amounts). Those levels would have to equal the average of the amounts enacted for emergencies over the previous 5 years.

When the House or Senate considers legislation with emergency spending, the Budget Committee Chairman must certify that those amounts are for an emergency as defined by law. Any legislation that would exceed the emergency spending levels established in the budget resolution must be referred to the Budget Committee. If the committee decides that the spending fits within the statutory definition of emergency, it may then amend the legislation with a provision exempting the emergency spending from the discretionary caps or PAYGO requirement, as appropriate.

Budgeting for emergency spending is inherently difficult and uncertain. Emergency funds are provided for a wide variety of purposes, are administered by many agencies, and are often unpredictable. Yet experience shows that emergencies will indeed arise and on a fairly regular basis. Since the Budget Enforcement Act of 1990 (BEA) went into effect, annual emergency spending unrelated to the Persian Gulf War (which was offset by foreign contributions) has fluctuated between about \$1.5 billion in 1991 and about \$21 billion this year, averaging nearly \$9 billion a year. The exemption for emergency spending from BEA enforcement procedures may have been used as an excuse to avoid planning for emergencies and may also have served as a loophole in some years for unnecessary or excessive spending.

The bill's reserve-fund procedure would help to promote better planning for emergencies. It would establish useful guidelines and budgetary controls, enforced under the budget resolution, that would inform the debate and help policymakers more effectively judge both the merits and the appropriate magnitude of emergency funding measures. In particular, the codification of an accepted definition of emergency spending would clearly be an improvement over the current "anything goes" situation.

Under certain circumstances, the reserve-fund procedure could become cumbersome and could slow consideration of measures to fund emergencies. Emergency

spending typically is included in a number of regular and supplemental appropriation bills each year. Depending on when the budget resolution is adopted, action tends to be concentrated between June and September. Under H.R. 853, emergency reserve amounts would be released by the Budget Committee Chairmen as qualified bills were reported and considered. That could become a daunting task when multiple appropriation bills were reported or were pending before the Congress.

Whether the bill's emergency spending reserve would hold costs below historical averages is unclear. Fashioning a purely budgetary mechanism to reduce or eliminate the need for emergency spending would be difficult at best. To reduce the pressure to provide emergency funds, the Congress would need to make changes in the programs that fund emergency needs for example, to incorporate measures to mitigate the costs of natural disasters. Uncertainty is likely to remain a central and unavoidable element of any process designed to budget for and control emergency expenses, but with or without a new emergency spending reserve, enacting into law an appropriate definition of what constitutes an emergency should help reduce abuses.

STRENGTHENING ACCOUNTABILITY FOR FEDERAL SPENDING

Title IV of H.R. 853 would make several changes intended to improve the accountability and legislative oversight of Federal programs. It would require Congressional committees to establish a timetable for reviewing all programs within their jurisdiction including existing entitlements at least once every 10 years. It would also prohibit the Congress from considering legislation that provides mandatory spending for a new program or authorizes discretionary appropriations unless the legislation would expire after 10 or fewer years. The bill would allow the Chairman of either the House Budget or the House Appropriations Committee to offer a floor amendment that would make mandatory spending for a new program subject to annual appropriation.

One of the most vexing reform issues facing lawmakers is how to achieve a proper balance between the rigors of the budget process and the need for effective program oversight. Many lawmakers and observers are concerned that too much attention is focused each year on budgetary matters and that the important work of reviewing and evaluating the performance of Federal programs is too easily pushed aside. For example, as of the beginning of this year, nearly one-fifth of total 1999 discretionary appropriations funded programs for which the underlying authorizations of appropriations had expired.

The changes proposed by H.R. 853 are designed to enhance oversight and accountability. They also implicitly acknowledge the link between effective oversight and budgetary discipline. In 1993, the Congress passed the Government Performance and Results Act (GPRA) to require Federal agencies to establish strategic plans and performance measures. Performance measures for Federal programs are now included in the President's budget alongside the funding requests for those programs. The act's basic intent is to provide performance measures that can help lawmakers hold agencies accountable for achieving program objectives and to allow funding priorities to be based in part on whether agencies have lived up to their own standards of performance. Regular legislative review of Federal programs, as envisioned by H.R. 853, could help support the goals underlying GPRA.

The new requirements, however, could at times impose a heavy burden on the legislative process. For example, one goal of H.R. 853 seems to be converting permanent authorizations of appropriations to a periodic cycle. But doing so might only exacerbate the current problem of unauthorized appropriations. Expired authorizations are one of the factors that delay the annual appropriation process. Lawmakers must be careful to avoid requirements that will only lead to further bottlenecks for annual appropriations. One option would be to stagger the program-review schedule for committees so that not all such reviews were considered at or around the same time.

BUDGETING FOR FEDERAL INSURANCE

Title V of the bill, the Federal Insurance Budgeting Act of 1999, would change the budgetary treatment of Federal insurance from a cash basis to a more prospective method of recognizing the long-term cost of such programs. The objective is to provide decisionmakers with information and incentives to better control losses in Federal insurance. The current budgetary treatment obscures the government's exposure to risk over the long term and fails to motivate a balancing of premiums against losses.

Specifically, this reform would require agencies to estimate the projected insurance premiums and costs, including claims payments and recoveries, over the life

of insurance commitments. The change in the present value of projected multiyear losses (or gains) to taxpayers would be reported as outlays (or collections) in the budget. Thus, the effect of an insurance program on the budget surplus or deficit would be the change in the expected long-term gain or loss to the government in the budget year.

For the largest Federal insurance programs, including pension and deposit insurance, the effects on the budget would be significant. The key feature of those programs is that their commitments extend far into the future; premium income is likely to arrive steadily, while losses occur episodically and unexpectedly. Under cash-basis accounting for insurance, the current and projected budget years usually show net cash inflows to the government from premiums, with few losses anticipated from insured events. Showing net cash inflows is the norm because premium receipts are expected, but identifying specific future years in which large numbers of pension or bank failures will occur is difficult.

Consider, for example, the Pension Benefit Guaranty Corporation (PBGC), the Federal program that insures the defined benefit pension plans of private-sector companies. Every year since it came on-budget in 1981, PBGC has collected more in premiums and other income than it has paid in pension benefits and administrative expenses. In 1998, when its net inflow totaled \$1.2 billion, the Federal deficit was consequently \$1.2 billion lower. For 1999 and 2000, the President's budget projects net cash inflows for PBGC of \$843 million and \$1 billion, respectively.

Although that budgetary picture makes PBGC appear to be a moneymaker for the U.S. government, cash-based accounting does not acknowledge the liabilities that the agency has accrued but has yet to pay and does not address taxpayers' exposure from the insurance commitments. Although PBGC has assets totaling about \$18 billion, it has also accumulated liabilities to current and future retirees that total over \$12 billion. PBGC's net assets of \$5.4 billion stand in contrast to the agency's report of \$15 billion to \$17 billion in future losses that are "reasonably possible." Thus, PBGC's overall financial position may not be nearly as strong as that implied by cash-based accounting.

The proposed budgetary treatment of PBGC would balance projections of premium income with the likelihood that claims will eventually be paid in whole or in part from those premiums. That approach would report on the long-term financial status of PBGC but by doing so could reduce or even eliminate the reported financial gain to the government from pension insurance. The proposed accounting reform could have a similar offsetting effect on projected premium income from deposit and other long-term insurance programs, whose net effect on the budget under current practice is also to move the budget in the direction of surplus.

One of the major challenges posed by the proposed reform is the difficulty of assessing future losses under various Federal insurance programs. The proposed approach has an advantage over cash-basis budgeting in that assigning losses to specific years in order to budget for anticipated costs would not be necessary. Nonetheless, estimating future losses from insurance commitments would require substantial data collection and analysis, and there is no assurance that reliable estimates could be obtained.

The proposed legislation acknowledges the magnitude of that task and the uncertainty of success by authorizing appropriations to pay the cost of the analytical work, delaying full implementation until fiscal year 2006, and terminating the act at the end of fiscal year 2007. The lengthy transition is appropriate and would give agencies with operating responsibilities for insurance programs as well as the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) some time to collect the relevant data, develop and test financial models of those processes, and display the results in the budget documents on a trial basis. The bill would also require extensive public disclosure of the methods used to project losses and provide for public comment and subsequent revision of those methods. Finally, in fiscal year 2005, OMB, CBO and the General Accounting Office would each report to the Congress on the advisability and appropriateness of the new budgetary treatment of Federal insurance programs. If the assessments contained in those reports were sufficiently negative, the Congress might want to reevaluate the changes before they were carried out.

A sharp contrast exists between the deliberate approach envisioned in H.R. 853 and the much faster timetable of credit reform, a closely related change in budgetary accounting adopted in 1990. Accounting under credit reform is more straightforward than the proposed accounting change for insurance programs because loans and loan guarantees generally cover fixed periods, whereas the government's insurance commitments extend indefinitely. The new methods that agencies developed for anticipating insurance losses during a period of experimentation and evaluation would be of particular interest.

CREATING AUTOMATIC CONTINUING APPROPRIATIONS

The bill would provide for automatic continuing appropriations in the event that one or more of the 13 regular appropriation bills were not enacted by the beginning of the fiscal year. It would fund programs at the current rate the level that was provided for the prior fiscal year.

That reform would address the problem of the potential budgetary “train wreck” that awaits lawmakers at the beginning of each fiscal year because of delays in enacting annual appropriations. In the post-World War II era, continuing appropriations (referred to as continuing resolutions, since they are typically enacted in the form of a joint resolution) have been enacted in most years. Until the early 1970’s, those measures engendered relatively little controversy. Since then, however, the intensity of overall budgetary conflict has sometimes made it difficult even to enact short-term continuing resolutions, occasionally leading to brief government shutdowns for nonessential activities. In some years, continuing appropriation laws have also become last-minute vehicles for major substantive legislation.

Enacting automatic continuing appropriations would end the crisis atmosphere that surrounds the appropriation process at the end of each session. It would also end the disruptive effects of potential and actual government shutdowns. Further, without the availability of a must-pass continuing resolution, there would be no year-end legislative vehicle to which lawmakers could attach unrelated policy riders.

However, certain cautions are in order. Automatic appropriations would bring an end to one of the only action-forcing deadlines in the budget process, giving an important legislative advantage to defenders of the status quo. For example, a determined minority in the House or Senate that opposed changes in current funding levels could more easily thwart a prevailing consensus in support of those changes. In some cases, that might work to the President’s advantage, especially if he had enough legislative support to uphold his veto power. Members of the committee may wish to work with the Appropriations Committee, to which H.R. 853 was jointly referred, to devise a formula for automatic continuing appropriations that ensures a reasonable level of continued funding but also includes procedures to encourage timely action on regular appropriation bills.

BUDGETING IN AN ERA OF SURPLUSES

The bill would change the PAYGO process to require an on-budget surplus (essentially, a surplus excluding the Social Security trust funds) projected for the upcoming fiscal year to be included on the PAYGO scorecard for that year. In general, such a change would make it possible to enact legislation increasing mandatory spending or cutting taxes without offsets up to the amount of a projected on-budget surplus for the year.

That change would add some flexibility to the PAYGO rules without jettisoning the overall budgetary discipline that they now impose, since legislation causing an on-budget deficit would still have to be offset. Further, since PAYGO is enforced 1 year at a time, PAYGO legislation enacted after the change took effect could require legislated offsets or even trigger a PAYGO sequestration in later years if sufficient on-budget surpluses were not also projected in the sequestration reports for those years. Because the PAYGO requirement is enforced with OMB estimates, the future use of that change would rely on the Administration’s budget projections.

USING CURRENT-YEAR LEVELS IN BASELINE BUDGET PROJECTIONS

In general, H.R. 853 would require the budget projections used for the President’s budget and the budget resolution to be compared with unadjusted current-year levels in addition to current-law baseline levels. The bill would also require CBO’s annual economic and budget outlook and cost estimates to include comparable levels for the current year, although CBO already complies with that requirement for the most part.

Some people have expressed concern about the effects of “baseline budgeting.” In general, they contend that the future budgetary effect of proposed policy changes should be measured from current unadjusted spending and revenue levels instead of levels that reflect the estimated effect of current policies and economic assumptions carried forward into future years. Although current-year data are available and are typically used in the annual appropriation process to evaluate proposed changes in discretionary appropriations, they are not routinely used in describing the effects of proposals that would change mandatory spending and revenue laws.

Highlighting current-year data in the President’s budget, the budget resolution, and CBO’s analyses and cost estimates could make those data more accessible and

easier to use. However, the current-law baseline remains essential for lawmakers when considering changes to mandatory spending programs and taxes.

ADDING A SPENDING-REDUCTION LOCKBOX

The bill also includes a "lockbox" procedure intended to preserve the savings from amendments to appropriation bills that reduce spending. The House passed similar legislation in both the 104th and 105th Congresses.

Under the bill's lockbox procedure, any Member offering a spending-reduction amendment to an appropriation bill would be allowed to designate whether the savings would be credited to the lockbox, used as an offset for other appropriations, or remain under the Appropriations Committees' spending allocations. The Budget Committees would be responsible for maintaining a ledger of the appropriate distributions for amendments approved by the House or Senate. For amounts credited to the lockbox, the discretionary spending limits and Appropriations Committee allocations would be lowered by an amount that split the difference between the House and Senate savings.

The bill's lockbox procedure addresses a concern of some Members that the savings from spending-reduction amendments to appropriation bills approved by the House or Senate tend to be restored or shifted to other accounts once the bill reaches the conference committee stage. The new procedure would "lock in" those savings by reducing the allocations of spending to the Appropriations Committees made under the budget resolution (after appropriation bills had passed the House and Senate) and by reducing the statutory discretionary spending limits (after the bills were enacted into law) by an amount of estimated savings. A lockbox concept was used in the Line Item Veto Act under which the discretionary spending limits were reduced by the total amount of savings from any item vetoes that were not overturned.

The lockbox procedure could improve budgetary discipline, but it might also make the annual appropriation process more complex and less flexible. It might be more efficient and less cumbersome for lawmakers to reevaluate the discretionary spending limits when considering the joint budget resolution than to do so in piecemeal fashion as individual appropriation measures were considered and approved.

CONCLUSION

H.R. 853 is a major budget reform bill. Elements of the measure such as the emergency spending reforms, the changes in the budgetary treatment of Federal insurance, and the new requirements for legislative review and program evaluation could take positive steps toward addressing certain problems. The major structural reforms in the bill principally the joint budget resolution and automatic continuing appropriations could also lead to improvements in the annual budget process but would not be without potentially significant drawbacks.

To some extent, however, the same could be said of all of the major budget process reforms enacted since 1974. In general, major budget reforms should be approached cautiously. They tend to increase overall complexity, shift power, and have unintended effects. Lawmakers will want to weigh all of those factors as they consider the significant changes proposed by H.R. 853 or any other major budget reform proposal.

The extensive changes proposed by the bill also suggest a broader issue of budget process reform that should be addressed at some point: is it time to convene a new commission on Federal budget concepts? In general, Federal budget concepts are based on the recommendations of the 1967 President's Commission on Budget Concepts. Although the commission's guidelines continue to apply broadly in the budget process, they do not address certain fundamental issues that lawmakers and budget scorekeepers face. For example, various proposals to reform Social Security, especially those that call for personal retirement accounts, raise thorny questions about appropriate budgetary treatment. Further, the dividing line between Federal spending and revenue law has become blurred, as evidenced by the increasing use of refundable tax credits as a device for expanding budgetary resources. The use of public/private partnerships, such as those involving military housing and various lease-purchase arrangements, also raises questions of budgetary treatment for which the commission's recommendations provide little or no guidance.

Those and other issues put budget scorekeepers in a difficult position as they seek to apply outdated or incomplete concepts to novel budget policies. That situation suggests the need to reevaluate current budget concepts and to try to reach a consensus on changes that will make them comprehensive, clearer, and more effective.

Mr. CHAMBLISS. Mr. Penner.

STATEMENT OF RUDOLPH G. PENNER

Mr. PENNER. Mr. Chairman, members, thank you for the opportunity to testify. I believe that H.R. 853 is a thoughtful effort to improve the budget process and to adjust it to an era of surpluses. However, I think there are a few places where modifications could improve the incentives inherent in the bill.

Before getting into those issues, let me first support the proposal to make a budget resolution a joint resolution, rather than a concurrent resolution. I have long thought that it would be useful to bring the President into the bargaining process early. By creating the fall-back of allowing a rapid consideration of a concurrent resolution if there is no agreement, you would address the most compelling criticism of a joint resolution, and that is, the bargaining process could be very time-consuming and inordinately delay the passage of a complete budget. Nevertheless, the problem of delays remains a serious issue.

It would be my hope that in a typical year the time spent bargaining over aggregates could smooth the way for more rapid agreements regarding individual policy issues as the year progresses. But there are risks. While I think it certainly is worth trying a joint resolution, the Congress should continually reconsider how it is operating.

I like the bill's approach to insurance programs. As Dan Crippen just said, conceptually, there is little doubt they should be estimated on an accrual basis. Practically, there are problems. It cannot be denied that there are areas where it is extremely difficult to make the credible estimates needed for implementing this provision. But as he said, you do allow considerable time for the agencies doing the estimation work to work on methodologies, and it is my expectation that they will be successful.

The bill provides an exception for certain social insurance programs. For information purposes, I believe that it would be useful to estimate the contingent liability in the social insurance programs as well, especially Social Security and Medicare.

Turning to some areas where I believe that the incentives created by the bill could be improved, I would especially single out the portion that attempts to avoid disruptive closures of government agencies when appropriations actions have not been completed. Here I come out exactly where Carol Cox does. I think that allowing spending to continue at last year's level is too lenient. I think it has to be more painful to delay action. The automatic appropriation could be set at the lower of the levels passed by the House or Senate, or if nothing has been passed, at 95 percent of last year's level.

H.R. 853 makes a valiant attempt to deal with emergency spending. In considering these provisions, it is important to recognize that the main problem does not stem from the procedures for handling emergencies. Severe pressures have been imposed on those procedures because the Congress is now faced with caps on discretionary spending that are so severe as to be impractical politically.

The problem arises because the caps have no programmatic content when they are passed. That allows them to be lowered arbitrarily, especially in the outyears. When the outyears arrive, the Congress is faced with a severe problem. A vast majority wants to

pass programs that violate the caps, but they do not want to increase the caps implicitly for fear of being labeled spendthrifts. I doubt that any emergency procedure will work well unless the Congress faces up to this basic problem.

Obviously, it is not useful to have caps that cannot and will not be adhered to. I suggest some arbitrary rules for determining caps which may or may not be very good, but I think the main point is that we need an explicit debate on the levels of the caps. If that debate reaches a reasonable conclusion that a majority accepts, it will be less essential to amend the emergency procedures.

The emergency procedures established by the bill have one flaw that could become serious if the current approach for formulating discretionary caps does not change. It bases the reserve for emergencies on a 5-year moving average of past expenditures. I fear that there will be severe pressure to spend at least the reserve, and because there will be years in which true emergencies push spending above the reserve, the 5-year moving average will be placed on a strong, upward trend.

As Carol suggested, I would equate the reserve to some other variable, perhaps some percent of last year's outlays.

I think the most difficult issue faced by the bill conceptually involves the effort to retain the discipline imposed by pay-as-you-go rules while allowing the surplus to be used for spending increases or tax cuts: PAYGO rules were clearly designed for an era of deficits. They are no longer appropriate and probably cannot survive without modification.

I worry, however, about the proposed structure because it creates a strong incentive for an administration bent on tax cuts or entitlement increases to promulgate a very rosy economic scenario and/or to artificially lower discretionary caps in the out-years hoping that future Congresses will simply change the goals when deficits emerge, much as happened under Gramm-Rudman.

This problem could be greatly reduced if the Congress administered this provision based on CBO estimates rather than OMB estimates. As I understand the bill, it suggests using OMB estimates for this particular provision. CBO is much more constrained in what they can forecast.

Regardless of whether CBO or OMB estimates are used, I think one should drop or perhaps modify, as Carol suggested, the requirement that when a deficit does emerge, that past policy actions must be reversed to the extent they contributed to the deficit. If you drop that provision, you can avoid the economic and programmatic disruptions that would stem from abrupt reversals of policy.

In other words, I am saying that bygones should be bygones. You will be constrained to some degree by the first estimate of future surpluses, and hopefully it will be an honest estimate. After that, I think you should take other measures to rein in the deficits, if they occur.

It should be understood, however, that if past legislation phases in tax cuts in a series of steps or entitlement increases in a series of steps, any remaining steps should be cut off whenever a deficit emerges.

Thank you, Mr. Chairman.

Mr. CHAMBLISS. Thank you.

[The prepared statement of Rudolph G. Penner follows:]

PREPARED STATEMENT OF RUDOLPH G. PENNER, SENIOR FELLOW, THE URBAN INSTITUTE

[The views expressed in this testimony are those of the author and do not necessarily reflect the views of the trustees and employees of the Urban Institute.]

Mr. Chairman and members of the committee, thank you for this opportunity to testify. I believe that H.R. 853 is a thoughtful effort to improve the budget process and to adjust it to an era of surpluses. However, I think that there are a few places where modifications could improve the incentives inherent in the bill.

Before getting into those issues, let me first support the proposal to make the budget resolution a joint resolution rather than a concurrent resolution. I have long thought that it would be useful to bring the President into the bargaining process early. It slightly enhances his or her influence over budget strategy, which I believe to be appropriate given our severe constitutional limits on the President's power over budgetary matters. By creating the fallback of allowing rapid consideration of a concurrent resolution if the Congress and the President fail to reach agreement, you address the most compelling criticism of a joint resolution and that is that the bargaining process could be very time consuming and inordinately delay the passage of a complete budget.

Nevertheless, the problem of delays remains a serious issue. Bargaining over a resolution could take a long time before it is recognized that there are no grounds for an agreement. It is my hope that in a typical year, the time spent bargaining over aggregates could smooth the way for more rapid agreements regarding individual policy issues as the year progresses. It has to be recognized that there will be periods in which this will not be true, however. During the Reagan Administration, there was remarkably little disagreement between the President and the Congress over total spending. There were, however, profound disagreements over the division of spending between defense and nondefense programs. Consequently, some caution is required. My overall conclusion is that a joint resolution has enough merit to be tried, but the Congress has to be ready to reconsider if it becomes evident that the approach is not working efficiently.

I like the bill's approach to insurance programs. Conceptually, there is little doubt that they should be estimated on an accrual basis. Practically, it cannot be denied that there are areas where it is extremely difficult to make credible estimates of the appropriate accrual amounts. The most difficult issues arise in those areas, such as deposit insurance, in which there is a tiny probability of a catastrophic event. Small changes in the absolute value of the probability can create large changes in the appropriate accrual estimate. But you allow considerable time for the agencies doing the estimates to work on methodologies and the results of that work will determine whether or not this is a practical reform. I suspect that the CBO will, in fact, be able to resolve most of the difficult conceptual issues.

The bill provides an exception for certain social insurance programs. For information purposes, I believe that it would be useful to estimate the contingent liability in the social insurance programs as well, especially Social Security and Medicare. This is done, in a way, when the trustees of those programs examine the financial future of the trust funds. However, this is not a very useful economic concept, because the economic burden imposed by those programs is not directly influenced by the amount of resources held by the trust funds. Routinely providing an estimate of the present value of the expected liability and the present expected value of the earmarked payroll tax would provide valuable complementary information.

Turning to some areas where I believe the incentives created by the bill could be improved, I would especially single out the portion of the bill that attempts to avoid disruptive closures of government agencies when appropriations actions have not been completed. Allowing spending to continue at last year's level is too lenient in my view. We all know how easy it is for a determined minority to delay action in the Congress. I fear that if a majority of the Congress wishes to cut a program, it may not get done under this rule. Conversely, a minority may find it easy to thwart increases in a program.

I think that it has to be more painful to delay action. The automatic appropriation could be set at the lower of the level passed by the House or Senate, or if nothing has been passed, at 95 percent of last year's level.

H.R. 853 makes a valiant attempt to deal with "emergency" spending. Last year, a particularly large amount of spending that could not be related to any real emergency was funded by so-called emergency legislation, thus circumventing the pre-

viously legislated caps on discretionary spending. The bill tightens the definition of an emergency, gives the Budget Committee Chairman considerable power to enforce the definition, and sets aside a reserve fund to cover normally expected natural disasters and other true emergencies.

In considering these provisions, it is important to recognize that the main problem does not stem from the procedures for handling emergencies. Severe pressures have been imposed on those procedures, because the Congress was faced with caps on discretionary spending that were so severe as to be impractical politically. The problem arises because the caps have no programmatic content when they are passed. That allows them to be lowered arbitrarily, especially in the out-years. When the out-years arrive, the Congress is faced with a severe problem. A vast majority wants to pass programs that violate the caps, but they do not want to increase the caps explicitly for fear of being labeled spendthrifts.

I doubt that any emergency procedure will work well unless the Congress faces up to this basic problem. Because the caps are inherently arbitrary when passed, the Congress might wish to consider an arbitrary rule regarding their growth. The rule would attempt to strike a balance between realism and fiscal prudence. For example, caps that allowed 1 percent real growth per year would provide considerable more flexibility than the current caps while still ensuring that discretionary spending would not grow faster than the GDP. Such a rule would have to be revisited from time to time and there would likely be instances where special provisions and fire-walls are needed for specific types of spending, e. g. defense. But my main point is that we need an explicit debate on the levels of the caps. If that debate reaches a reasonable conclusion, it will be less essential to modify emergency procedures.

The emergency procedures established by the bill have one flaw that could become serious if the current approach for formulating discretionary caps is not changed. It bases the reserve for emergencies on a 5-year moving average of past expenditures. I fear that there will be severe pressure to spend at least the reserve and because there will be years in which true emergencies push spending above the reserve, the 5-year moving average will be placed on a strong upward trend. I would equate the reserve to some other variable. For example, it could be equated to some percent of last year's outlays. One percent would provide somewhat less than was spent last year. One half of 1 percent would provide something less than was spent on average over the last 5 years.

Another change included in the bill would have the baseline for discretionary spending defined as last year's nominal spending level instead of defining it to be last year's level plus an adjustment for inflation. I do not think that this change will have as important an effect as some believe, but I have no strong objection so long as CBO continues to report amounts adjusted for inflation. That will help policy analysts in and out of government understand what is happening to the real level of goods and services provided by various programs.

Those who argue that the baseline should hold nominal levels of discretionary spending constant believe that the current approach imparts an upward bias to spending. I am not so sure this is the case, because there are also biases the other way. When I was at CBO, I had pressures from some committees to raise the baseline for programs that they were intent on cutting. It was as though they would not initiate cuts unless they got credit for more significant savings than they got with the traditional baseline concept. Similarly, a committee may be more inclined to increase spending on a highly popular program, if they get credit for a bigger increase relative to the baseline.

The most difficult challenge faced by the bill involves the effort to retain the discipline imposed by pay-as-you-go (PAYGO) rules while allowing the surplus to be used for spending increases or tax cuts. PAYGO rules were clearly designed for an era of deficits. They prohibit policy changes involving taxes or entitlements that would increase any deficit during the projection period, which was defined to be 5 years when PAYGO was first adopted. These same rules now prohibit any reduction in the projected surplus because of tax or entitlement changes. Although I favor saving a considerable portion of the projected unified budget surplus, this is a policy decision and the formal budget process should not so strongly favor one policy outcome over another.

The proposed rule would allow projected surpluses to be used up by tax cuts or entitlement increases. If the projections prove too optimistic and a deficit emerges, a sufficient portion of the cost of the previous policy action has to be made up in order to eliminate any deficit. Otherwise, a sequester will be imposed. If, however, a deficit emerges because of a recession, the rules would be suspended and there would be no need to make up for past policy actions. OMB estimates and projections will be used to enforce these rules.

There are a number of problems with this approach. First, budget projections might be adjusted by large amounts even if the economy does not go into a recession. For example, growth can be weaker than expected, interest rates might be higher, and medical cost growth may rise faster than expected. The required policy adjustment could be large enough to impose a substantial negative shock on the economy, or more likely, the goals will have to be changed as under Gramm-Rudman, and the whole process will lose credibility.

This problem could arise even if all projections are done honestly. However, the proposed change creates a strong incentive for the promulgation of rosy economic scenarios, thus leaving future policy makers to deal with the problems that arise when the scenarios do not materialize. The change also creates an incentive to promulgate unrealistically low caps for discretionary spending in the long-run, thus making it appear as though there is more room for a tax cut or entitlement increase. These incentives will tend to increase the size of future deficit reducing actions, thus increasing the probability of destabilizing corrective actions.

These problems are formidable, but on the other hand, current PAYGO rules are so inappropriate for an era of surpluses that I suspect they will not survive without modification. What then, should we do?

I think that we are better off with a weak variant of PAYGO rather than with no PAYGO at all. The propensity to promulgate rosy scenarios and to set unrealistically low spending caps would exist even if there were no PAYGO. But because the danger of forcing destabilizing shocks is very real in the PAYGO variant described in this bill, I would suggest a weaker variant in which bygones are bygones and corrective action is not required if a deficit emerges. The only thing that happens is that we go back to traditional PAYGO rules.

One might say that this increases the propensity to assume rosy scenarios and to lower future discretionary spending caps, because all future penalties for doing so are removed. That is true. The problem of the caps would not be so severe, however, if my previous suggestion was adopted and we had an explicit debate about setting caps in a realistic, but fiscally prudent manner.

The problem of rosy scenarios is somewhat different. Unless OMB became totally outrageous in their estimates, the errors in a rosy scenario are likely to be relatively small for the budget year, but then they grow mightily in future years. Rosy scenarios are, therefore, not suited for justifying large initial tax cuts or entitlement increases. Instead, they work better as a means for justifying large surplus reducing measures that have a small effect immediately, but are then phased in over time. If the bill built in a mechanism for cutting off phase-ins when future deficits were projected, I believe that the danger posed by rosy scenarios would be greatly reduced.

The danger of rosy scenarios would be further reduced if the weakened PAYGO rule were based on CBO rather than OMB estimates. CBO forecasts cannot stray far from that of a consensus of outside economists. Administrations have more scope for playing with the numbers. Although not a lawyer, I believe that the rule could be written in a constitutionally acceptable fashion. When the Supreme Court ruled that CBO could not play an operational role in administering Gramm-Rudman, it left intact the ability of CBO to declare a recession, which in turn allowed the Congress to turn off Gramm-Rudman.

It is true that sequestration is based on OMB rather than CBO estimates, but since we are worried about rosy scenarios, the OMB estimates would not be constraining. When OMB turns out to be less optimistic than CBO, the difference is seldom very large and in those times the Congress would have to pay a lot of attention to where OMB was coming out, but that should not be difficult.

Mr. CHAMBLISS. Mr. Greenstein.

STATEMENT OF ROBERT GREENSTEIN

Mr. GREENSTEIN. Thank you, Mr. Chairman. I appreciate the opportunity to testify here today, and like the other members of the panel, I recognize clearly that the authors of this legislation spent many months and much hard work putting it together, and clearly the legislation includes some useful provisions, such as the provision changing the accounting of Federal insurance programs.

Unfortunately, however, I believe the legislation contains a number of other provisions that would have unintended, but nevertheless, harmful effects, both on the budget process and on the main-

tenance of fiscal discipline; and that the drawbacks of the legislation substantially outweigh its advantages.

The problems fall primarily in two broad categories: the changes in the pay-as-you-go rules and a series of provisions in the legislation that, taken together, have the effect, even if unintended, of tilting in favor of tax cuts and entitlement spending over discretionary spending. Let me take each of those areas separately.

I should also note, before going into them, the combined effect here, particularly of the PAYGO change, which I will discuss first: I think it would be to weaken fiscal discipline significantly, and while other provisions of the bill strengthen fiscal discipline, that the net effect of the bill as a whole is a weakening of the discipline because of the PAYGO change.

I know Mr. Minge well; we have spent many meetings talking about budget process issues. I know the last thing in the world he wishes is to weaken fiscal discipline. I know that is not the intention of the authors of the bill, but I think it would be the outcome of the bill.

The fundamental problem in the PAYGO area in this bill is the change that would enable projected budget surpluses to be used in full to finance tax cuts or entitlement increases, even though those surpluses might not fully materialize. CBO recently conducted an analysis in which it looked at how close to the mark its estimates of deficits or surpluses for 5 years out had been over the last—I can't remember now exactly if it was 15 years or 20 years, somewhere along that line.

CBO noted that, if you took the average amount by which its forecast was either too high or too low for 5 years out, and you applied it as a percentage of GDP to today, it would mean that the forecast for 2004, 5 years from now, could be too high or too low by somewhere in the vicinity of \$250 billion a year or more.

The CBO forecast of the on-budget surplus for 2004 is \$63 billion. Let's suppose that this legislation passed and changes were made that consumed those \$63 billion between taxes and spending. Let's also assume for the moment that the surplus projection turned out to be too high by about \$50 billion; that is a small fraction of the historical average by which the forecast has been off.

The \$50 billion overage would require a sequester that would entail not only a 4 percent reduction in Medicare provider payments, but complete elimination—100 percent sequestration—of farm price supports, crop insurance, child support enforcement, social services block grants and other programs.

One may say, well, that would not happen, and the idea is to get Congress and the President to agree to \$50 billion a year in savings. But \$50 billion a year is about double, or close to double the biggest deficit reduction in the first year of any major deficit reduction plan Congress has considered in recent memory, including the one that was vetoed in 1995, which didn't have anything close to \$50 billion in first-year savings.

Where I am heading is that faced with a sequester of that magnitude, the Gramm-Rudman experience of the late 1980's would most likely repeat itself. We would change the targets, we would live with the deficits. Fiscal discipline would have been weakened.

Adding to this problem, the bill specifies that in projecting the future on-budget surpluses, CBO and OMB are to assume that the discretionary spending level for all years for which there isn't a cap is frozen at the level of the last year for which a cap exists.

If that procedure had been used in the CBO forecast that is now in use for the period through 2009, it would show a surplus forecast about \$430 billion larger during that period than the CBO forecast we have been using over the last several months. That wouldn't be a realistic forecast.

Congress wouldn't be able to live with freezes that went that far out, as the current struggle over the discretionary caps is indicating this year. But it would create a bias toward the larger tax cuts and entitlement increases now, because the projection of the surplus would be greater and then when we got to the future, we would be in very serious trouble if those outyear numbers for discretionary spending could not be made to stick.

This leads me into a third related problem with the PAYGO changes. Under current budget rules, one cannot lower the discretionary caps to finance tax cuts or entitlement increases. That rests on the very reasonable proposition that discretionary caps last only a few years and most tax cuts and entitlement increases are permanent. Under this bill, I think it is too easy to set unrealistically low caps for the outyears or even lower them for the outyears, while making sure there is enough money for the current year or two for discretionary spending and then getting us into fiscal trouble down the road.

It is easy to design entitlement increases that phase in and don't cost a lot in the first few years. It is easy to design tax cuts that pay for themselves by accelerating revenues for a year or two, and then lose a lot of money. Under this bill it is too easy to have artificially low discretionary caps in the outyears that give you the surplus funds to cover the entitlement costs and tax increases, but which can't be sustained when we get to the outyears.

The current experience with the caps set under the 1997 budget agreement, I think should be a warning here about how easy it is to set unsustainably low caps in the outyears.

For all of these reasons, I fear that this bill would lead to a significant weakening of fiscal discipline. Does this suggest we should maintain the current pay-as-you-go rules forever, regardless of the magnitude of a projected on-budget surplus? Well, no, that would not be realistic, but it suggests to me two steps we could take.

First, our biggest challenge is not only in policy, but in long-term fiscal discipline—where are we going to be, what are our budget projections 20, 30 years from now when the baby boomers retire and the demands that Social Security and Medicare place on the budget will be most severe? I think it is unwise to allow the projected surpluses to be consumed before we know whether we might need some part of them to work out a bipartisan agreement that shores up Social Security and Medicare and eases their effect on the budget down the road.

Secondly, I think even after Social Security and Medicare reforms are resolved, it is very unwise to allow 100 percent of a projected surplus 5 years down the road to be used now for a tax cut or entitlement increase. It seems a more prudent course would be

to have some percentage—what is the right percentage, is it 50 percent; I am not sure exactly what it is, but some percentage, not 100 or very near 100—that could be used and, better yet, that that percentage be varied.

A larger percentage could be allowed in the first year or two, but the percentage of the projected surplus that should be allowed to be spent in this fashion should decline the farther one gets into the future because the projections are more uncertain; the farther one gets into the future, the greater the risk the surpluses wouldn't materialize. That would be a much better way to go than a look-back provision, as the current bill has, that says, gee, if the surpluses turned out not to materialize in the way we projected 5 years earlier, we are going to set up a big sequester that probably would never happen.

On the discretionary side, I referred to a tilt in favor of tax cuts and entitlements over discretionary that is in part what I have already mentioned, the ability to place low or reduced cap levels in the outyears to fund tax cuts or entitlement increases. It also relates to several other provisions in the bill.

The lockbox provision I think is a troublesome one. It would allow the caps to be lowered for all years for which there is a cap, whenever either the House or the Senate pass a cut in an appropriations bill on the floor, even if the other House might reject the cut by such a wide margin that it could not be sustained in conference.

More troubling, it would allow a cut passed on the floor in a pork-barrel project that only had a 1-year effect on spending, a one-time item, to result in a reduction in the caps for every year for which the cap remained. In fact, because of that effect, I believe it could make it harder to cut some pork-barrel projects, because some Members who otherwise would be willing to vote for that cut would not be willing to vote for it if the result was a reduction in the caps for every year for which a cap remained.

I recognize that the bill allows a member to designate that a cut not go into the lockbox, but I actually think by forcing a member to say it does or doesn't go into the lockbox, the legislation runs the risk of dividing supporters on the floor who might vote for a cut in a discretionary program. It divides them between those who are not that interested in voting for the cut, if it doesn't reduce overall discretionary spending, because they are the shrink-government faction, and those who think that it represents good policy but they don't want to reduce the caps.

If Members do not designate a cut as going into the lockbox, the shrink-government faction will vote against it; if Members go the other way and say it does go into the lockbox, some Members who agree it is an unnecessary expenditure will vote against the cut because they don't want to lower the caps for all years for which there a cap.

I think the job is to set the caps at an appropriate level, enforce them and tighten up on emergency designations, not to go the lockbox route.

I also share the fear of a number other people that testified today that a 12-month automatic, continuing resolution makes it too easy to have automatic CRs that maintain the status quo supplant regu-

lar appropriations bills. The risk of that is enhanced by the fact that under the joint resolution provision of the bill, appropriations bills would no longer be able to come to the floor after May, even if a budget resolution had not been agreed to. This would mean that in years in which there were long negotiations between the President and the Congress on a joint resolution, but not a veto, the movement of the regular appropriations bills would be delayed on the front end; and then if you didn't get them done by September 30th on the back end, bingo, you get an automatic 12-month CR.

It seems to me that in years for which there are budget caps about which there is not big controversy—and most years we have had budget caps haven't been like this year; they have been years in which the caps have been sustained—why for years in which there is a budget cap on discretionary already in law, appropriators should be allowed to take their bills to the floor by May, as they can today, if a resolution hasn't been worked out.

If there is an interest in doing automatic CRs, they ought not to be for 12 months. Maybe they should be for a month. I am not sure of the exact time frame, but they shouldn't be for 12 months, because that makes it too easy for them to substitute for regular bills.

For all of these reasons, I come to the conclusion, as I mentioned at the start, that the bill poses some serious problems that outweigh its advantages, and that absent major changes, it would weaken fiscal discipline, and enhance the tilt we already have toward taxes and entitlement spending over discretionary spending. It would increase problems more than it would alleviate them.

Thank you.

Mr. CHAMBLISS. Thank you, Mr. Greenstein.

[The prepared statement of Robert Greenstein follows:]

PREPARED STATEMENT OF ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

I appreciate the invitation to testify before the committee. I am Robert Greenstein, executive director of the Center on Budget and Policy Priorities. The Center is a non-profit, non-partisan policy institute here in Washington that specializes both in fiscal policy and in programs and policies affecting low- and moderate-income families and individuals. The Center is funded primarily from foundation grants. It receives no Federal funding.

Some of the provisions of H.R. 853, the Comprehensive Budget Process Reform Act, would make useful improvements in the Federal budget process. I would take special note of the legislation's proposed changes in the budgetary treatment of Federal insurance programs.

Unfortunately, the legislation also contains provisions that would have quite undesirable effects. Various provisions of H.R. 853 could make the budget process less efficient than it is today and lead to long delays in action on appropriations bills. H.R. 853 also could lead to larger reductions in discretionary programs than the reductions already envisioned under the 1997 Balanced Budget Act. In addition, it could lead to automatic cuts in Medicare and other programs during economic slowdowns and weaken budget mechanisms that are preserving budget surpluses which may turn out to be needed for Social Security reform. Overall, I believe the legislation would damage the budget process significantly and that its drawbacks substantially outweigh its advantages. I would recommend against enacting this legislation.

- The bill would be likely to squeeze discretionary programs inordinately. It would likely have this effect because of the combined effect of a number of features of the legislation. H.R. 853 would effectively allow the caps on discretionary spending to be reduced to pay for tax cuts and entitlement expansions. It also would lower the discretionary caps when either the House or Senate passed an amendment to an appropriations bill reducing funding for a discretionary program.

- The bill would likely lead to delays in consideration of appropriations bills because it would repeal the provision of current law allowing appropriations bills to be brought to the House floor after May 15 if a budget resolution has not yet been approved; it would bar floor action on appropriations bills until work on the budget resolution has been completed. Moreover, the bill would lengthen the time it takes to finish work on a budget resolution because it would convert the resolution into a joint resolution that requires a Presidential signature.

- Under H.R. 853, if projected surpluses are used to pay for tax cuts and the surpluses subsequently fail to materialize as forecast which could easily happen if the economy performs less well than forecast or tax cuts turn out to be more expensive than was assumed at the time they were enacted cuts in Medicare, student loans, farm price supports, and various other entitlements would be triggered through the sequestration process.

- The bill would alter the “pay-as-you-go” rules, allowing projected surpluses in the non-Social Security budget to be used to finance tax cuts and entitlement increases before Social Security reform is approved and before it is known whether a portion of these funds are needed to fashion Social Security or Medicare solvency legislation that can secure majority support in both houses.

I will elaborate on these points below. Before doing so, I would like to caution that we should be very careful about making large changes in the budget rules established under the Budget Enforcement Act of 1990. While it is sometimes said that the budget process is broken, most budget experts I know think otherwise and believe the Budget Enforcement Act of 1990 has been remarkably effective. The regimen it established of discretionary caps and pay-as-you-go requirements has been instrumental in helping us get from multi-hundred billion dollar deficits as far as the eye can see to budget surpluses.

When the BEA was enacted, some predicted the discretionary caps would routinely be busted by large amounts and the pay-as-you-go requirements would not last long. Both predictions proved mistaken. That the emergency designation of the law was stretched last fall and again in the current Kosovo supplemental reflects the fact that the 1997 budget agreement set unrealistically austere caps, not that the process as a whole has broken down. Moreover, changes to tighten the procedures for handling emergencies and making emergency designations can be instituted without the more sweeping changes that H.R. 853 would make.

Let me turn to what I regard as the principal shortcomings of the legislation.

IMPACT ON DISCRETIONARY PROGRAMS

Discretionary programs constitute a declining share of the budget. At \$575 billion in fiscal year 1999, discretionary spending accounts for 34 percent of the budget and 7 percent of the economy (i.e., of the Gross Domestic Product). The Congressional Budget Office projects that if discretionary spending stays within the caps through 2002 and grows with inflation thereafter, discretionary spending will decline to 29 percent of the budget and 5 percent of GDP by 2009. By contrast, 10 years ago in 1989, discretionary spending constituted 43 percent of the budget and 9 percent of GDP.

Various provisions of H.R. 853 would directly or indirectly place additional downward pressure on funding for discretionary programs. The bill contains a “lock-box” provision that would cause reductions in the discretionary caps. After the House and Senate had completed floor action on any appropriations bill but before conference on the bill, the total amount of funding cuts each chamber had approved in floor action on the bill would be averaged.¹ The discretionary caps would be reduced by this average amount for the fiscal year in question, as well as for all succeeding years for which a cap has been established. These cap reductions would be instituted even if one house had approved a cut by a narrow margin and the other house had decisively rejected it. As a result, one house’s decision to cut a bill would force the other house to lower total appropriations without any concordance from that other chamber through normal conference procedures.

In addition, the lock-box mechanism could lead the discretionary caps to be reduced by more than the amount needed to “lock away” savings created by cutting a particular project. Amendments reducing funding for an appropriations bill would result in a reduction in the discretionary caps not just for the fiscal year covered by the appropriations bill but for each fiscal year after that for which there is a statutory cap. If appropriations are cut for a one-time project say, providing fewer funds

¹A Member offering an amendment on the House or Senate floor could specify that the savings the amendment produced not go into the lock-box.

for a NASA space-shuttle procurement or a particular construction project future cuts in other programs would be required.

(Ironically, one effect of this provision might be to make it more difficult to reduce low-priority spending, an effect that is the opposite of what the bill's sponsors seek to achieve. Suppose an amendment to cut a big-ticket item, such as a NASA procurement, is offered. Those who favor the cut are likely to fall into two groups: those who want to use the savings to shrink government and those who want to shift the funds to other areas. Under current rules, both groups will join to vote for the cut. Under the procedures H.R. 853 would establish, the two groups may divide. If the amendment making the cut places the savings in the "lock-box," many in the "reorder priorities" faction may oppose it, as it will shrink the overall resources available for discretionary programs. If the amendment does not place the savings in the lock box, the "cut government spending" faction may oppose it. The result could be that fewer amendments to cut low-priority spending are approved and more, rather than less, of the status quo is maintained. If that occurred, the provision would retard efforts to reorder budget priorities.)

USING DISCRETIONARY CUTS TO FINANCE PERMANENT TAX CUTS OR ENTITLEMENT INCREASES

H.R. 853 also would enable tax cuts and entitlement expansions to be financed by reductions in the discretionary spending caps, since it would allow non-Social Security surpluses to be used for tax cuts and entitlement increases, and reductions in the discretionary caps would enlarge these surpluses. Allowing tax cuts and entitlement expansions to be financed by reducing the discretionary caps raises several concerns.

The discretionary caps typically are set for only a few years at a time; currently, the caps are in place through 2002. Lowering the caps would thus assure savings for only several years. Tax cuts and entitlement expansions, by contrast, are usually permanent and often grow in cost over time. Allowing policymakers to pay for permanent tax cuts and entitlement expansions with reductions in the discretionary caps that provide short-term savings could lead to significantly smaller surpluses or larger deficits in years to come. In addition, because reducing the discretionary caps for future years does not itself entail cutting specific programs, it could become too easy for policymakers to pay for popular tax cuts or entitlement increases by lowering the discretionary caps.

Moreover, because the effects of reducing the discretionary caps are not felt immediately, these caps could be lowered by unrealistic amounts to pay for tax cuts, with the result that the caps subsequently are raised back up and the anticipated savings not secured.

The savings in discretionary programs assumed as part of the 1997 budget agreement may be a case in point. The 1997 budget agreement instituted caps to keep discretionary spending at a virtual freeze over 5 years, requiring substantial reductions in discretionary programs in inflation-adjusted terms, with these reductions concentrated in the last several years of the 5-year budget period. It now appears the caps are unrealistically tight and will probably be raised.

Exacerbating this problem, the bill specifies that in determining the size of the budget surplus and hence the amount available for tax cuts and entitlement increases a "baseline" must be used that assumes discretionary spending is frozen in all future years for which a statutory cap is yet to be established, with no adjustment for inflation. This represents a departure from current practice under which baseline levels for discretionary spending for future years without a cap are set equal to the prior year's levels, with an adjustment for inflation. Under H.R. 853, the baseline would assume large reductions over time in the levels of services that discretionary programs would provide. For example, using CBO's inflation assumptions, a baseline that contains no adjustment for inflation would assume a 12 percent cut in service levels after 5 years and a 23 percent cut by the tenth year.²

²Some historical background may be of use here. After passage of the Congressional Budget and Impoundment Control Act of 1974, decisions were needed as to how to construct baselines for discretionary programs. A debate ensued concerning whether the baseline for discretionary program spending should reflect the prior year's level adjusted for inflation *and population* or the prior year's level adjusted only for inflation. Some budget experts, such as Robert Reischauer—then a high-ranking CBO official—argued the baseline should represent the funding level that would maintain current levels of service per person—and, hence, that the baseline should adjust for both inflation and changes in population. The course of adjusting only for inflation was adopted. Current baseline procedures show the levels needed to maintain the *general*

Continued

Altering the baseline procedures that have been in place for nearly a quarter of a century and eliminating inflation adjustments in projecting discretionary spending levels, as H.R. 853 does, will make budget surpluses look much larger and hence enable tax cuts to be substantially bigger. This one provision of the bill would artificially swell the non-Social Security surplus by more than \$436 billion over the next 10 years. (See Table 1.) This could lead to much larger tax cuts and entitlement increases that, in turn, could lock in frozen or otherwise low levels of discretionary spending, necessitating substantial reductions in the levels of service that discretionary programs provide, since the tax cuts or entitlement expenses would have consumed the resources needed to support discretionary appropriations at a more adequate level.

In fact, under H.R. 853, if tax cuts had been approved that consumed the on-budget surplus, subsequent action to raise the discretionary caps to facilitate the passage of appropriations bills could trigger a sequester of Medicare and other entitlement programs. This would make it very difficult to raise the discretionary caps if the caps proved excruciatingly tight. In short, H.R. 853 could lead to deep cuts in discretionary programs.

purchasing power of discretionary programs; under these procedures, discretionary spending as adjusted for inflation declines over time on a *per capita* basis.

TABLE 1.—DISCRETIONARY SPENDING: CURRENT BASELINE, COMPARED TO FROZEN BASELINE UNDER NUSSLE-CARDIN-GOSS PROPOSAL
[In billions of dollars]

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	10-year total 2000 to 2009	
Total discretionary spending:										
Current baseline ¹	\$568.4	\$583.2	\$598.3	\$613.9	\$629.9	\$646.2	\$663.0	\$680.3	\$6,130.7	
Nussle-Cardin-Goss proposed baseline ²	\$568.4	\$568.4	\$568.4	\$568.4	\$568.4	\$568.4	\$568.4	\$568.4	\$5,694.7	
Nussle-Cardin-Goss baseline, as dollar reduction from current baseline	\$0.0	—\$14.8	—\$29.9	—\$45.5	—\$61.5	—\$77.8	—\$94.6	—\$111.9	—\$436.0	
Nussle-Cardin-Goss baseline, as percentage reduction from current baseline	0.0%	—2.5%	—5.0%	—7.4%	—9.8%	—12.0%	—14.3%	—16.4%	—7.1%	

¹ The current baseline assumes that discretionary spending will be at its capped level while the caps are in place, and will grow with inflation starting in 2003, when there are no caps.

² Under the Nussle-Cardin-Goss proposal, the baseline would assume that discretionary spending will be at its capped level while the caps are in place, and be frozen at the prior year's levels starting in 2003, when there are no caps.

Source: CBO January 1999 Baseline Budget Projections, Assuming Compliance with Discretionary Spending Caps.

DELAYS ON APPROPRIATIONS BILLS

H.R. 853 would be likely to lead to lengthy delays in action on appropriations bills. The appropriations committees would be prevented from sending appropriations bills to the House floor until work on the budget resolution had been completed. By contrast, current budget rules allow the House Appropriations Committee to send appropriations bills to the floor if action on the budget resolution has not been concluded by May 15.

In addition, the bill would change the budget resolution from a concurrent resolution to a joint resolution. Getting the two houses of Congress to agree on a budget resolution has often proved to be a lengthy process even when the same party controls both houses. Developing a budget resolution that also must win the President's approval and signature, and would have the force of law, almost certainly would be a lengthier undertaking. (H.R. 853 would allow a concurrent resolution to be used instead of a joint resolution if a joint resolution had passed Congress and been vetoed by the President.)

H.R. 853 consequently would make the process of passing a budget resolution more difficult and time consuming, while barring appropriations bills from coming to the House floor until the budget resolution had been approved, regardless of how long that might take. In many years, floor action on appropriations bills probably would not be able to commence until late in the year. In years in which budget agreements are delayed, the appropriations committees could lose months of valuable time and find themselves under great strain to put together and pass bills in compressed timeframes late in the year.

H.R. 853 would bar action on appropriations bills prior to approval of a budget resolution even if statutory caps are in place on discretionary spending. Yet such caps make the budget resolution largely superfluous insofar as discretionary spending levels are concerned. When caps are in place, there is little reason to delay appropriations actions for long periods until a budget resolution is adopted; most budget resolutions simply adopt the discretionary caps already in law. This aspect of the legislation seems particularly ill-advised.

AUTOMATIC CR

H.R. 853 also could make it more difficult in another respect to pass appropriations bills. It would establish an "automatic continuing resolution" that would maintain funding at the prior year's level for programs in appropriations bills not enacted when a fiscal year commenced. The automatic CR would not expire after a few weeks or months, but would last for the full fiscal year unless superseded by passage of the appropriations bill in question.

Although the automatic CR provision is intended to avert government shutdowns, its principal effect could be to make it more likely that Congress would fail to work out agreements on controversial appropriations bills because a year-long CR would kick in automatically. The fact that the automatic CR could remain in effect for a full year, rather than expiring after a few weeks as most current CRs do, would ease pressure to work out agreements on regular appropriations bills. Moreover, the automatic CR provision could encourage minority Senate factions of 41 or more Senators to use filibusters to block appropriations bills to which they objected, since doing so would not threaten to disrupt government operations.

The result could be that automatic CRs would begin to supplant some appropriations bills. If so, the effect would be unfortunate. Relying upon automatic CRs rather than passing regular appropriations bills would reduce government efficiency and effectiveness since it would keep Congress from addressing changing priorities. Funding levels for programs covered by automatic CRs would be stuck at the prior year's level rather than increased for some programs and decreased for others to reflect changes in need. Permanent CRs frustrate efforts both to fund promising new initiatives and to pare back less-effective, outdated, and less-important programs. If this provision of the H.R. 853 led to more reliance on CRs and fewer enacted appropriations bills, the status quo would be reinforced at the expense of more responsive and effective government.

EFFECTS ON SOCIAL SECURITY REFORM

The "pay-as-you-go" budget rules currently in place require that entitlement increases and tax cuts be paid for with reductions in other entitlement programs or revenue-raising measures. These rules apply whether the budget is in deficit or surplus. Enacted in 1990, the pay-as-you-go rules have played a large role in eliminating deficits and, over the past year, in preserving projected surpluses.

H.R. 853 would alter these rules to allow policymakers to use non-Social Security surpluses to finance tax cuts and entitlement increases. Offsetting tax increases or entitlement reductions would not be needed. Although a provision of this nature may ultimately make sense, enacting it now could make it more difficult to reform Social Security and Medicare.

Plans to restore long-term Social Security and Medicare solvency may require more resources than the Social Security surplus itself provides; some temporary general revenue transfers from the non-Social Security surplus to the Social Security and/or Medicare trust funds may be necessary to fashion solvency legislation that can pass. If action is taken to alter budget rules so the non-Social Security surplus can be consumed by tax cuts and entitlement increases before legislation restoring Social Security and Medicare solvency is approved, resources that may prove necessary for solvency legislation may disappear. That could make it more difficult to secure agreement on Social Security and Medicare legislation. (It also could mean that whatever Social Security and Medicare solvency legislation ultimately is enacted would have to contain larger benefit reductions than might otherwise be the case, because resources that could have been used to bolster the trust funds would be gone.)

SEQUESTERS IF SURPLUSES DO NOT MATERIALIZE

This provision of the bill also poses another problem. Projected surpluses in the non-Social Security budget would essentially be used as contingent offsets for tax cuts or entitlement increases. If the surplus for a fiscal year subsequently turned out smaller than had been projected, the tax cut or entitlement expansion financed from the projected surpluses would no longer be considered to have been fully financed. To secure the needed financing, a sequester that cut Medicare and other various entitlement programs (including guaranteed student loans, the child support enforcement program, the social services block grant, farm price supports, and crop insurance, among others), would be triggered unless Congress and the President acted swiftly to fill the financing hole by cutting entitlement programs, raising taxes, or lowering the discretionary caps.

This provision of the H.R. 853 poses dangers to Medicare and various other entitlements. Policymakers would pass permanent tax cuts and/or entitlement increases based on projections of surpluses that could prove too optimistic. CBO and OMB deficit and surplus projections have been off by large margins in recent years, underestimating deficits substantially in some years and overestimating deficits or underestimating surpluses in others. If this provision of the bill becomes law and paves the way for large tax cuts this year, but surpluses subsequently turn out much smaller than current projections assume, Medicare and other entitlement programs could face large across-the-board cuts unless Congress acted swiftly to pass deep program reductions or sizable tax increases.

For example, CBO's January 1999 forecast shows a \$63 billion non-Social Security surplus in 2004. Congress might pass a tax cut that costs \$63 billion in 2004 without any offsets and assume the surplus would cover it. Suppose that when 2004 arrives, however, the non-Social Security surplus for that year is only \$5 billion (not counting the effects of the tax cut). CBO deficit and surplus estimates made 5 years in advance have, on average, been off by more than that amount.³ If this occurred, the President would have to order an across-the-board cut of \$58 billion unless Congress passed legislation cutting programs or raising taxes by that amount.

A \$58 billion sequester would be larger than the biggest first-year savings ever considered in any congressional budget plan of the last two decades. It would cut Medicare provider payments by 4 percent and entirely eliminate a number of programs, including farm price supports, crop insurance, the Social Services block grant, and payments to states for the child support enforcement program.

This would be particularly problematic for another reason as well. One of the most common reasons a surplus projection can turn out to be too high is that the economy has slowed since the projection was made. During economic slowdowns, revenues are lower than forecast, while expenditures for unemployment insurance, food stamps, and other programs are higher.

Most economists agree that cutting spending or increasing taxes when the economy is weak can push a faltering economy into recession. This, however, is precisely what would be required under H.R. 853 if a large tax cut or entitlement increase were enacted on the basis of projected surpluses but the surpluses failed to materialize because the economy weakened. Congress would have to raise taxes or cut

³See Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 2000–2009*, January 1999, p. 81.

spending or an automatic across-the-board spending cut would occur while the economy already was heading south.

This feature of H.R. 853 would essentially resurrect one of the components of the 1985 Gramm-Rudman-Hollings law most responsible for that law's failure. The Gramm-Rudman-Hollings legislation established fixed deficit targets, enforced by across-the-board cuts if the targets were missed. It ignored the fact that because deficits swell when the economy slows and for other reasons beyond policymakers' control, the law required deepening cuts as the economy weakened. As a result, large sequesters would threaten, especially when the economy could least absorb them. Since Congress and the President could not tolerate large cuts when the economy weakened or when deficit targets were missed by large margins for other reasons beyond policymakers' control, they would engage in large-scale budget deception to make it appear as though deficit targets would be met when everyone knew otherwise, and ultimately, when all else failed and crisis loomed, they would change the targets. Eventually, the unsuccessful Gramm-Rudman-Hollings process was replaced with the much more realistic and successful procedures the Budget Enforcement Act of 1990 established. The BEA has maintained and enforced fiscal discipline without requiring fiscal retrenchment when the economy weakens or deficit forecasts become more adverse due to factors that policymakers cannot control.

The problems that this feature of H.R. 853 could cause would not be limited to periods when growth was slowing. For example, tax-cut legislation could turn out to cost more than projected because inventive tax lawyers and corporate finance departments found ways to create tax shelters Congress had not intended. If tax-cut legislation turned out to cost more than forecast and hence was not fully offset, H.R. 853 could trigger a sequester of Medicare and other entitlements. The sequestration would not touch the tax provisions that had caused the problem.

CBO and OMB forecasts of future surpluses also could prove too optimistic for a number of other reasons. CBO has cautioned that its surplus forecasts may be off by large amounts if revenues grow more slowly than it has forecast. Analysts do not fully understand why revenues have grown more rapidly than projected in recent years, and they consequently do not know the extent to which the factors that have caused this unexpected revenue growth are temporary or permanent. Revenue growth in future years could be either lower or higher than CBO currently projects and by substantial amounts. If revenue growth turns out to be significantly lower but the projected surpluses have been used to finance large tax cuts and other expenditures, as H.R. 853 would allow, deficits in the non-Social Security part of the budget would threaten, and large sequesters would loom.

Similarly, a drop in the stock market would result in lower-than-expected revenue collections, since less would be collected in capital gains taxes. That, too, could trigger a large sequester of Medicare and other programs.

CBO this year devoted a full chapter of its annual report on the budget and the economy to the uncertainty of its projections. It warned that "considerable uncertainty" surrounds its budget estimates "because the U.S. economy and the Federal budget are highly complex and are affected by many economic and technical factors that are difficult to predict. Consequently, actual budget outcomes almost certainly will differ from the baseline projections ..."⁴ CBO reported that if its estimate of the surplus for 2004 proves to be off by the average amount that CBO projections made 5 years in advance have proven wrong during the past decade, the forecast for 2004 could be too high or too low by \$300 billion.

This is a reason for exercising caution in the use of projected on-budget surpluses and not enacting changes in budget rules that allow the projected surpluses to be used in full for tax cuts and entitlement expansions. If large tax cuts or entitlement expansions are passed but surpluses of the magnitude projected do not materialize, H.R. 853 could lead to large sequesters of Medicare and certain other mandatory programs, large cuts in other parts of the budget, or perhaps most likely changes in law to evade these requirements, with the result that deficits would return.

EMERGENCY SPENDING PROCEDURES

H.R. 853's provisions to change procedures relating to emergency spending also warrant mention. There is broad agreement that reforms are needed in this area, and many of H.R. 853's emergency spending provisions seem useful. But these provisions also include several questionable changes. Of greatest concern, the emergency and the PAYGO provisions of H.R. 853 seem inconsistent; under the bill, emergency spending could trigger a sequester of Medicare and other entitlements.

⁴Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 2000-2009*, January 1999, p. 81.

H.R. 853 would establish an emergency reserve fund, funded within the discretionary caps. When a discretionary spending item is designated an emergency, funding would come from the reserve fund. (The amount placed in the reserve fund would be based on a historical average of the annual levels of emergency spending in recent years, which would be about \$9 billion a year. If, in a given year, emergencies required more money than was available in the reserve, the budget committees could agree to exempt the additional funding from the caps.) This provision would not take effect until the discretionary caps are raised so that the caps could be set at a level that takes the reserve fund into account.

While these provisions seem reasonable, they do not mesh with the provisions of the bill that can trigger sequesters if on-budget deficits threaten to return. Suppose the projected surpluses have been used for tax cuts and some spending increases, and a major disaster or foreign military involvement occurs that requires emergency spending beyond the amount in the reserve. Congress could agree to designate the additional disaster or defense spending as emergency spending, but because this spending would result in a deficit, a sequester of Medicare and other entitlements would be triggered.

The bill also appears somewhat too restrictive in attempting to define what an "emergency" is. To be considered an emergency, five criteria would have to be met. Two of these criteria are that the emergency be both "sudden, which means quickly coming into being or not building up over time" and "unforeseen, which means not predicted or anticipated as an emerging need." The requirement that an emergency be both sudden and unforeseen would appear to bar emergency appropriations that are intended to address problems that were foreseen or developed gradually but turn out to be considerably more severe or long-lasting than had been anticipated, such as, potentially, needs for additional funding for peace-keeping in Bosnia. If problems such as these did not meet the new definition of emergency, other discretionary programs would have to be cut when urgent funding needs for matters such as these arose.

The bill also would accord unusual power in implementing its emergency provisions to the Budget Committees. Whenever any committee approved legislation that sought to designate an item as an emergency, the Budget Committees would determine whether the item met the definition of emergency and consequently could receive funding from the emergency spending reserve. Moreover, it would be very difficult for a floor amendment to be offered to fund an emergency need; H.R. 853 includes no mechanism to handle emergencies through a floor amendment. A proposal to offer such an amendment on the House floor would generally trigger a point of order.

FEDERAL INSURANCE PROGRAMS

Having been critical of a number of the provisions of H.R. 853, let me indicate support for the bill's proposals to change the accounting of Federal insurance programs. The Federal budget currently treats Federal insurance programs (such as flood, pension, crop, and deposit insurance) under cash-based accounting methods. Under these methods, the government is credited with revenue at the time the government collects insurance premiums and is charged with expenditures at the time the government makes claim payments. Under the accrual-based accounting methods that H.R. 853 would establish, instead of recording the flow of cash each year, the budget would record the risk that the government ultimately would have to make payments not offset by the premiums it collects.

The procedures H.R. 853 would establish would reflect the government's liabilities at the time the government assumes them. The expected net losses the government would incur over the life of an insurance contract would be recorded as a cost at the time the contractual arrangement was made. This would help policymakers understand the true costs of policies affecting government insurance programs.

There are some important concerns about how OMB and CBO would estimate the expected net losses that result from insurance contracts. For this reason, this change in accounting methods would be phased in over 5 years, and studies would be conducted by OMB, CBO and GAO during the phase-in period. Two years after the accounting methods were fully implemented, they would expire, and Congress could decide whether they had been sufficiently successful to continue their use. This seems a prudent course to follow.

CONCLUSION

H.R. 853 contains some improvements in the budget process, such as its provisions reforming the accounting of Federal insurance programs. Unfortunately, its

deleterious aspects are serious and substantially outweigh its beneficial aspects. For these reasons, I would strongly recommend against enacting this legislation.

Mr. CHAMBLISS. Let me just say that all the Members here have great appreciation, but promise not to tell the Senate that you refer to them as the other House. We like to think of them as that too.

I want to, while it is fresh on my mind and you are talking about continuing CRs, frankly say, I like what Mr. Penner said with respect to putting some sort of penalty provision in there. What you allude to is maybe not doing it on a 12-month basis, but maybe a 30-day, 90-day—I don't know—basis may be preferable also.

What is your feeling about his idea of making it 95 percent of the previous year, or if we did a 30-day CR, maybe do 2 percent every 30 days, a 2 percent reduction every 30 days? I don't know whether that is possible or not. But off the top of my head, I am thinking he makes a good point there, that it needs to hurt. There needs to be some sort of real inducement for Congress to move forward and get the work done.

What is your reaction?

Mr. GREENSTEIN. I think Rudy and I have a similar goal here. Our concern is that automatic CRs not supplant regular appropriations bills.

I have concerns about his recommendation, however. My concern is the following: Under any kind of 12-month automatic CR, if there is a minority faction, 41 votes in the Senate that can filibuster an appropriations bill—at least filibuster it until they are granted something they want—they can throw the bill into the automatic CR mode.

Having the automatic CR have a 5 percent cut in it is not necessarily something that would prevent that from occurring if those 41 Members were Members who opposed that particular appropriations bill, or if they were Members who wanted to further lower discretionary appropriations to get more money for tax cuts or entitlement increases.

I think the existing system already puts constraints on discretionary spending, especially with the caps. I wouldn't favor furthering them by setting up a mechanism where we could go to 95 percent.

I guess I think there is less need for an automatic CR than some other people do, but to the degree there is a need, in my view, the idea is to make it short-term and temporary, not 12 months long. If you do that, I wouldn't see the need, and I wouldn't favor going from 100 percent down to 95 percent.

Mr. CHAMBLISS. Does anybody else have a comment on the length of the CR?

Ms. WAIT. I will only say, Mr. Chambliss, at one point we actually did toy around with the thought of an automatic CR that declined in value with every passing month. I am not sure, as you said, whether that is practical or not.

I share the view that automatic CRs ought not to become a regular way of doing business and that they ought to involve some pain. I would like to see the price increase as time went on, if the automatic CR stayed in place. But I don't think that a 30-day or 60-day or 90-day automatic CR, with all deference to Bob, will answer the problem you are trying to get at. It simply puts off for another

30, 60 or 90 days the point when the government is going to shut down. The people who are sufficiently intransigent once again have leverage, to insist on funding for some specific priority. You would continue to get this ratcheting-up effect to which we object very much.

Mr. CHAMBLISS. Mr. Penner, concerning your using CBO forecast to value PAYGO versus OMB, Mr. Minge and Mr. Nussle are here and may correct me on this, but I think there was some sort of constitutional problem in using OMB. If you have any thoughts on that or any ideas on that, I am sure that we would welcome those thoughts and ideas.

Mr. PENNER. Well, I would be the last to claim that I am a constitutional lawyer and that I am able to predict what would pass muster with the court.

I think there are two different issues. One, as you do your ordinary management of legislation, now you use CBO estimates. Sometimes you direct CBO, as you did in my time there, to use the administration's economic assumptions in costing out various provisions, but basically it is CBO that does the work for you.

In terms of doing the management of legislation, I think that it would be OK to use CBO estimates. There may be a problem, because with regard to this provision, you are shutting off and turning on PAYGO depending on whether a surplus is projected. But I don't really think that this would be an issue.

If you went so far as to have the CBO estimates determine whether there was a sequester or not, that is more troublesome. However, I do refer in my testimony to the fact that in responding to a recession, the Supreme Court left in place the notion that CBO could announce a recession and then that would expedite certain laws that you would pass.

I wonder if some kind of arrangement like that might be used to enforce some kind of sequester. That is to say, CBO wouldn't do it precisely by its estimate, but CBO's judgment would put in motion certain privileged legislation that might end up with the same result.

Mr. CHAMBLISS. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman. First, let me talk briefly about the automatic CR. I appreciate what our colleagues are trying to accomplish with that. I opposed the line item veto not because of the economic or accounting question, but because I thought it was an incredible transfer of power from the legislative branch to the executive branch. I think to some extent the court concurred with that.

I thought about it in terms of what a Richard Nixon or a Lyndon Johnson from my home State would have used the line item veto for. They wouldn't have used it to cut pork, they would have used it to legislate, get their legislative agenda through.

At the same time, I have a concern with this automatic CR, certainly at the current year's level of the ability of the Congress to shift away from the executive, democratic structure of government that we have to a parliamentary system of government where, if the Congress decides the President is never going to agree with them on budget policy, then they can say, fine, we will take a pain-

ful, but minimally painful option, and strip the budgetary power away from the President as much as we can.

I think that is something we have to be concerned about.

The idea of a 5 or 10 percent reduction which has been used in short-term CRs from the past, or the lower of whichever House passed in their appropriations bills, I think is more of a question of bleeding to death rather than forcing the Congress to face up to their ultimate responsibility of passing these bills.

So I think we would be wiser to look at a short term, as Mr. Greenstein proposes, or if not that, some draconian reduction of 50 percent or whatever is necessary to run the central functions of the government, so it makes us do our job.

I am really even more interested in the changes in the PAYGO rules and I have a couple of questions about that, and let me just list these out. The first is, don't you think the PAYGO rules, since 1990, have worked, and worked if the goal was to get our fiscal house in order?

The second is, do you have any real fear that adjusting the PAYGO rules where you can leverage long-term budgetary assumptions that could result in potential mistakes and result in sequestrations that we couldn't meet, that this is Gramm-Rudman-Hollings all over again, where we are going to set these targets and then not meet them and then exempt everything; and in the end result in adding a great deal of debt? And isn't this just unshackling us from the fiscal responsibility that the 1990 act put in place?

I was staff here in the 1980's when we passed Gramm-Rudman-Hollings. I was staff in the Appropriations Committee, and I remember talking about this. Jamie Whitten added another line to his speech about how he didn't like the Budget Act and he was here when it started and he did not think it was a good idea, but he complied with it, sort of, and this was going to make it worse. And then it took us all the way to the 1990 act to do it.

But the fear I have—and I'm not being critical of my colleagues—but, boy, this will just open up the floodgates now. We can say we have a 15-year projection of a \$4.5 trillion unified budget surplus, a \$2.8 trillion on-budget surplus. Let's go. And I think the likelihood of that occurring is highly, highly—I'm highly skeptical of that.

Mr. PENNER. Let me comment on your first point. I agree that PAYGO has worked extremely well. Indeed it has worked a lot better than I expected it to when it was first passed in 1990. I thought there would be much cheating and much manipulating of the numbers to evade PAYGO rules. There has been some of that, mind you, but not a lot.

But it was very clearly designed to confront a situation where we had deficits that had some probability of getting totally out of control. And what it did was prevent the Congress from increasing that deficit in any way. It didn't push them to reduce it, but it prevented them from increasing it.

Now, as the budget balance has changed, it has the effect of preventing you from reducing an on-budget surplus. And while I am one who thinks it would be good to save a large portion of the on-

budget surplus, I really don't think that is a policy outcome you want to try to build into a budget process.

Now, I agree that what I am proposing weakens PAYGO quite considerably because of the fears that you voice. My greatest fear is not the sequesters or the policy reversals that would come out of the proposal made by the task force, but rather that it would just be ignored like Gramm-Rudman. The goal line would be moved. I think that is the most likely result of that proposal.

So that is why I suggest doing it the way they suggest but without reversing policies if deficits emerge. In other words, bygones would be bygones. But I am the first to admit that that weakens the provision quite considerably, and it does make me somewhat nervous. But that's the direction I would go.

Ms. WAIT. I may be the only person in town that actually represents a substantial group of folks who would like to see current PAYGO rules carried forward indefinitely, or the policy that likely would produce. That is to say, when I had the temerity to write testimony earlier this year urging Congress to save 100 percent of Social Security trust fund surpluses, the nearly unanimous response I got from my board was, why not save 100 percent of all budget surpluses for as long as we have surplus projections?

So my views are not due to any distaste for that policy outcome—

Mr. BENTSEN. If I might interrupt you briefly, I introduced that amendment when we considered our budget resolution, and it didn't fail for a second, but damn close to that.

Ms. WAIT. That position didn't get a whole lot of support. I didn't hear a whole lot of rousing applause anyplace else when I voiced the sentiment of our board before the Ways and Means Committee earlier this year either. Having said that, we should not write, nor continue rules we are unwilling to enforce or cannot enforce. That is worse in some respects than not having any rules at all. We just become scofflaws.

I don't believe for one minute that Congress is going to observe the PAYGO rules as they are written today for any prolonged period of time, if we continue to see very large surplus projections.

So the question is, how do you write a different set of rules that will operate effectively to impose the kind of restraints that we can agree are appropriate? As I said in our testimony, I am not sure that Mr. Nussle and Mr. Cardin have that absolutely right; and I am sure, having helped to write similar legislation in the past, even once you know what you think you want to do, you need to sit down and very carefully draw a picture of it. You need to make sure your legislation will produce the outcome you want it to produce.

I keep coming back to the fact that I think that this is one area where trying to write arbitrary rules for the long term may get you in real trouble. I think it is appropriate every year, every couple of years, to revisit what we think is the appropriate percentage of the surplus to put off the reservation. And I am now talking about on-budget surpluses. I hope we have all agreed to save the Social Security Trust fund surplus.

I share entirely Bob Greenstein's and Rudy's concerns about projections. I think you have to be very careful about spending pro-

jected money, and I would be for almost any reasonable safeguards to keep us from doing stupid things in that regard. I think your bill moves in the right direction. But, I think that there is some more thought needed in this area.

But I think you are kidding yourself if you think you can actually enforce what is on the books today.

Mr. GREENSTEIN. In answer to your question, I think, as Rudy said, the PAYGO rules have worked well. I think you are right that this has a lot of similarities to Gramm-Rudman in the way it would play out.

I think Carol is right, that the current pay-as-you-go rules, exactly as they are on the books today, would not endure for a long time, in a period of large on-budget surpluses. But I don't think the only alternative is the one that is in H.R. 853, to essentially eliminate those rules other than in a look-back kind of sense.

Rudy made the very important point that these rules were put in place when we had a period of substantial deficits. I worry that we don't remember enough; that we are now entering what Rudy's colleague at the Urban Institute, Gene Steuerle, sometimes calls the eye of the hurricane. When you look at the CBO forecast down the road, I think somewhere between 2020 and 2030, CBO projects the deficits return and begin to rise pretty substantially. And that is a baseline projection of what would happen if we saved 100 percent of both the on-budget and the off-budget surplus, which we are clearly not going to do. So under some other framework those deficits return earlier.

Given the serious problems we face out there, given the somewhat discouraging debates we are having over Social Security, where both sides rush to put forward proposals that don't touch one hair on anybody's head or raise one penny in additional revenue from anybody and just say we will somehow pay for it all out of general revenue transfers somewhere down the road, I think we have reason to be concerned.

And this ought to add to our concern, about not completely blowing away these PAYGO rules before we know what we are doing about these long-term problems that are going to be here when the baby boomers retire.

Mr. BENTSEN. I have some other questions, but I assume you want to go around the horn.

Chairman KASICH. Mr. Nussle.

Mr. NUSSLE. Thank you very much. You sounded surprised in your last comment that Congress would actually try to attempt Social Security reform without touching beneficiaries. Don't be surprised.

Mr. GREENSTEIN. I feel a little discouraged, not surprised.

Mr. NUSSLE. First of all, I want to thank you for your interest and for your testimony and for your careful analysis. Right, wrong, or indifferent, I am just happy that we have taken a sober moment in time in between budgets to take a look at this, and I appreciate all of your interest.

Certainly you folks are the pillars as far as outside influences on the Congress in budget reform, and I want to thank you for that, even though we may not agree on every single item.

First, I wanted to visit the issue of PAYGO. One of the things that we tried to attempt, Ben Cardin and I, when we wrote this, is to be as neutral as possible in the decision that will need to be made. And we know it is going to have to be made. But we also didn't want to make it today, because it is a policy decision. Whether we use it for Social Security, whether we use it for Medicare, whether we use it for tax cuts, whether we use it for special education, for my farmers back home, no matter what it is, it is a policy, political decision that needs to be made sometime in the future.

And instead of attempting to put it into process today and game the outcome, we said Congress should decide, which is I think the right approach. And when you say it is unwise, Mr. Greenstein, to use that, I don't disagree. If you and I sat in a room and said how would we spend or use or utilize those surpluses into the future, I think we might agree based on the testimony we have heard today. Sounds like you would pay down the debt, sounds like you would shore up some of those accounts. So would I. Unfortunately, we are in a minority of people who want to use that.

So, again, for that reason, we didn't segregate. All we knew is that there tended to be agreement in the Congress to set aside Social Security; and, therefore, we did that. When you talk about not adjusting the PAYGO and being concerned about its utilization and how it has gotten us to this point today, I again tend to agree with you. However, are you aware of how many times since 1990 PAYGO has been suspended and in what instances?

Mr. GREENSTEIN. But I think as Rudy said, and I agree with his comment here——

Mr. NUSSLE. But just for the record, are you aware of when those occurred?

Mr. GREENSTEIN. I don't know the exact number.

Mr. NUSSLE. There are two times that I remember, that I have been told about, that are very poignant, and one is 1993, the budget agreement of 1993, which the Democrats herald as the reason we are here today in surplus; and the other is 1997, which is what the Republicans herald as the reason why we are here in surplus. Both times PAYGO was suspended.

So my question to you is, even though you are advocating that we should never touch this, this has worked and please don't pollute it, haven't we polluted it in the past when it has suited our situation?

Mr. GREENSTEIN. I am not sure exactly what you are referring to in 1993 or 1997. 1993 had, on net, both substantial entitlement reductions, primarily in Medicare and certainly substantial tax increases; and my understanding of what happened was we then took all those savings and did not put them on the PAYGO scorecard so they couldn't be spent. We actually were tougher in 1993 and 1997 than regular PAYGO would have required us to be, not more lenient.

Mr. NUSSLE. Well, but that is still a change in PAYGO. I mean, a different President and a different Congress could do the same thing. I am not suggesting you are wrong. Please don't misunderstand me. We agree that PAYGO is one of the reasons, the caps are one of the reasons why we find ourselves in this luxury right

now of even being able to have this discussion about this "S" word called surplus. I understand that.

But I am just saying that Congress, at its whim, or make fit in a reconciliation, can make that change, and has quite frequently. In fact, the President's budget that was sent up this year would require changes in order for it to fit into law.

So the concern over PAYGO, I think, is a legitimate one. I am not suggesting it is not. But to suggest that the decision has automatically been made because we are silent on PAYGO, because we say on-budget surpluses, basically, Congress can do whatever it wants with that.

Because we are silent on that doesn't mean it is going to go for tax cuts. It could go for spending increases; it could for entitlements; it could go to pay down the debts, which is what you and I would like to have happen. But it is still a political decision.

The second area you talk about is on CRs, and the interesting thing that came out in both our task force discussion as well as what is coming out here today is that there are people who think it is too high at 100 percent, and there are people who think it is too low at 100 percent.

The interesting thing about that is that it probably means it is pretty close to on target. Number one, I would suggest, or I would ask, what number should it be at, if this is either too high or too low? Just saying it is too high or too low I think is interesting, but to find a number that works in a majority of the Congress, I think, is difficult and that is the reason why we came at status quo.

The second is when you talk about a shorter-term CR being more effective. The only thing I can think of, as far as a short-term CR being effective, the only reason is because brinkmanship, of a government shutdown. The only reason it works is because you flow in 3 days, in 1 week, in 10 days the lengths of the CR, there will be a shutdown of those services.

Is there any other reason why a short-term CR is effective? Because if that is the only reason why a short-term CR is effective, that is not what we want. One of the goals was to move away from the brinkmanship of the short-term CR strategy and move to one that had a little bit more regular order.

So those are my kind of questions on CR for you. Do you have any thoughts on those?

Mr. GREENSTEIN. Let me try to respond to several of these. I was not saying, I am not sure if other witnesses were, I don't think so, that the 100 percent automatic CR figure was too low. What I was saying was it was too long, 12 months is too long, not that the 100 percent is too low.

Mr. NUSSLE. What number, then, would be the right length, as far as time?

Mr. GREENSTEIN. I have some discomfort with the whole concept of the automatic CR, because I think it makes it too easy to supplant the regular appropriations bills.

Mr. NUSSLE. OK. Let us not make it automatic, then. How would you operate the CR?

Mr. GREENSTEIN. I haven't really thought this all the way through. I don't know exactly what the best answer is, but I think relatively short.

If the goal of an automatic CR is to avert an actual shutdown when agreement can't be worked out, and you cannot even get agreement on a short-term CR in the conventional way, then I don't know why you would need something more than 30 days, if even that long.

Mr. NUSSLE. What happens at the end to have 30 days, then?

Mr. GREENSTEIN. It gives you 30 more days to try to work something out. I would not favor something where you do an automatic CR every 30 days until the whole thing works out. I think some of the people who favor an automatic CR look at what happened, particularly in the shutdown in 1995 and really don't want to repeat that.

And the question is how much of a risk do we have that we would constantly repeat that. I think there is a greater risk in this concept of not making the choices we need to make each year.

In my view, already in the current appropriations process we don't do enough to decrease funding for programs that should be decreased and favor new initiatives that really have merits. It is hard enough to get changes because of the inbuilt political special interest pressures that are already there. And I worry that the whole concept of an auto CR strengthens that.

One other quick point. I guess I view the bill as not being silent on PAYGO, because it does change it to remove PAYGO entirely with regard to projected surpluses. And I guess I don't think the 1993 to 1997 analysis holds. We didn't preach PAYGO then. We did more than PAYGO would otherwise be required to do.

Over the years I have been in Washington, particularly in the 1990's, over the 1990's I have been in discussions, behind-the-scenes discussions, bipartisan discussions, on many bills where in the absence of the PAYGO rule, at the end of the day, both parties and both Houses would have agreed to spend more or to cut taxes more.

And putting aside the particular instance of 1993 or 1997, if there is nothing to require fiscal discipline at all, I think the bias would be too heavily against the debt repayment that you and I want to see. I think there has got to be something that is somewhere in between the current PAYGO rules forever, despite the magnitude of budget surpluses, and not having anything at all. And you should not be able to spend all of those surpluses regardless of how uncertain the outyear projections are.

Exactly what it is that fits in between, I don't have a precise answer. It would have to be thought through. But I think we have to find something in between or we tilt too heavily in a direction that it sounds like, with your interest in debt repayment, is not where you would want to end up either. And while your intention is to be neutral, I think the political dynamic it would set in motion would tilt against the debt repayment outcome.

Chairman KASICH. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman. I have a couple other questions. Let me also say at the outset, I want to make clear that there are elements within the bill that I think are quite good. I do have concerns about the PAYGO provision in particular and the automatic CR.

I think trying to define emergency spending is quite admirable, because that is, particularly as caps get tighter, that is becoming a huge loophole. And I think the insurance, trying to move to an accrual basis of Federal insurance—and I appreciate Mr. Crippen's point that we ought to, if I read your testimony correctly, that we ought to be looking at other programs, like the military housing, 801 military housing programs, and some of those things, which I think are scored unlike anything else in the world.

Let me go back to the PAYGO for a second. I agree with the points you made, Ms. Wait, I think your point about looking at these things every couple of years. If I had my druthers, we would go back and look at the 1997 agreement, because I think the worst kept secret in Washington is the caps are going to be adjusted later this year and we are all going to try to figure a semantical way of not taking credit for that. But while multiyear programs don't always work, we should have a multiyear game plan, like any business would have.

In my opinion, it would include staying as close to the caps as possible and paying down as much of the debt as possible, because I think we have an abnormally high debt level. And if we want to increase defense spending, which I think we want to, Kosovo notwithstanding but just in other areas, and if we want to increase education spending, whatever, we should be willing to step up to the plate, tell the American people that is what we want to do, and pay for it.

I think the elimination of the PAYGO rules in this bill is too loose. And even if you make the point that it is unlikely Congress is ever in the long run going to stay by the existing 1990 PAYGO rules, I think completely doing away with them goes too far in the other direction.

The question I have is, is it worth exploring maybe looking at the Nussle-Cardin proposal and tweaking it a little bit to tie in overall debt level? This is something the Europeans have looked at with their monetary union. And I'm not sure we want to follow that model, but it is something they have looked at where they have set certain debt levels as far as their fiscal policy in being part of the European Monetary Union. Is it something we may want to say that we are not going to just include the discretionary side, the nonentitlement side of the budget for a look-back, but we include the tax side of the budget as well?

Now, the typical response may be you are about as unlikely to repeal a tax cut as you are to cut Medicare, as this would require, but what would your thoughts be on that?

Ms. WAIT. Two things. Let me start with the last part of your question and reference something Rudy said earlier. In 1997, when we worked with Mr. Minge and Mr. Barton, Mr. Stenholm, and many others to try and put more enforcement teeth into the Balanced Budget Agreement, the enforcement was tied to assumptions in the budget and the enforcement mechanism, affected the revenue side of the budget. It worked similarly to what Rudy was describing. It simply would have delayed implementation of any changes in revenues that hadn't taken effect if you were behind plan.

That proved not to be the most popular provision in the bill. I think you are right. I don't think you are going to go back and retrospectively cancel tax cuts. However, Jim Jones and Carol Campbell, in 1980, suggested suspending indexing on both sides of the budget. There is a certain apparent symmetry to that, whether there is logical symmetry. There are things you can do if you are interested to delay changes in law that haven't already gone into effect from going into effect.

Having said that, let me go back for just a minute to the fundamental concept that I think gets overlooked all too often in this whole debate about a joint budget resolution.

I get kind of hokey when I talk about this, so I hope you all will forgive. In our system of government the polling booth is supposed to be the market clearing mechanism. That is the only place where this government really is accountable. And voters can't hold political leaders accountable if they don't understand what you are doing. If you can find anybody on the streets in any of your districts who purports to understand what you are doing in the budget process today, I wish you well.

We need somehow, someplace a process that produces a plan for the United States Government. None of us are going to be happy with that plan because our system of government doesn't produce outcomes that any of us love entirely. Compromises that are endemic to anything you-all produce. But you need a plan that is understandable. That is why we like nominal dollar caps you can measure yourself against caps as time goes on. They force you from time to time, Congress and the President both, to stand up and be counted if you want to change the levels you last wrote into law.

I know that is a very simplistic set of concepts, but I think it is a set of concepts that could help bring political accountability to fiscal policy in this country that would be highly salutary.

I would like to see whatever biases you build into whatever PAYGO changes you make safeguards against spending surpluses that are not going to materialize. But I would like more than anything else to see you adopt a process sufficiently transparent as to hold you accountable when you say however problematic these projections may be, we think X percent of this surplus ought to be set aside, before you start spending the money.

When you have all of the other priorities of the Nation in front of you, and you all have to stand up and vote, when you and the President have to reach some kind of agreement on the budget, that is the time to make such decisions. That is the way our system of government works. I think that is the genius of the joint resolution.

I think you may have very great difficulty getting the first joint resolution enacted; but I think once you do, you will have less difficulty than you think enacting subsequent resolutions because priorities do change and imperatives alter over time. You will have to change the joint resolution before you can do the things you want to do as time moves on.

I think that is a very worthwhile undertaking.

Mr. PENNER. If I understand the practical import of your suggestion, it would be something like keeping current PAYGO in effect

until the debt to GDP ratio reaches 25 percent or some number like that.

Mr. BENTSEN. Right.

Mr. PENNER. Well, I guess I very much agree with Mr. Nussle that you don't want to build policies like that into the process. It may be an excellent policy, but I just think that such a provision creates too big a bias in favor of a particular fiscal policy even though I would support that policy.

I think what the budget process should try to do is nudge the Congress toward fiscal prudence. And I don't think a process can push the Congress very far. I think you just nudge them. And I guess I would not go as far as you do in advocating a very specific surplus policy for that long a time as part of the process.

Mr. BENTSEN. Thank you, Mr. Chairman.

Chairman KASICH. Miss Wait and gentlemen, thank you all again very much for being here and providing great insight into this process; and I am sure that there will be additional questions down the road that we may be calling each of you individually on as we proceed down this road. So thank you very much for being here.

I ask unanimous consent to include in the record statements prepared by The Business Roundtable, Representative Porter Goss, the Concord Coalition, and Bill Frenzel, co-chairman of the Committee for a Responsible Budget.

[The prepared statement of the Business Roundtable follows:]

PREPARED STATEMENT OF LARRY BOSSIDY, CEO, ALLIEDSIGNAL, REPRESENTING THE
BUSINESS ROUNDTABLE

Mr. Chairman, as chairman of the Business Roundtable's (BRT) Federal Fiscal Policy Task Force, I am very pleased to have this opportunity to express my support for Federal budget process reform and to comment on the many positive aspects of H.R. 853, the Comprehensive Budget Process Reform Act of 1999. I commend Chairman Kasich and the members of the House Budget Committee for holding a hearing on this important topic and I hope the committee will soon report budget process reform legislation to the full House of Representatives for its ultimate approval.

With the enactment of the Balanced Budget Act of 1997, plus the higher than expected revenues and lower than projected spending for Medicare and other programs, it appears the Federal budget has entered a new era of budget surpluses. After more than 30 years of chronic budget deficits, the Federal budget is projected to have surpluses throughout the next 10 years, which is truly an amazing achievement. Congress' work, however, is far from finished. Immediate attention must be given to maintaining the fiscal discipline that contributed so greatly to these surpluses and to reforming the entitlement programs that are the root cause of overspending.

The BRT also believes this new era of budget surpluses provides Congress with a perfect opportunity to undertake a broad overview of how Federal budget policy is established. Rather than taking the traditional incremental approach to addressing budget challenges, Congress, with the support of the Clinton Administration, should commit itself to developing a new budget paradigm that stresses continuation of budget surpluses, institution of a long-term effort at debt retirement, implementation of entitlement reform, simplifying the tax code, and consideration of needed solutions to the unfunded liability crisis inherent in many Federal programs.

A new budget paradigm also is needed to help policymakers avoid repeating the mistakes of the past and replace political expediency with decisions that instill the long-term economic health of the nation as the first priority. More government and higher taxes are not the answer. Every decision affecting the way taxpayers' dollars are spent should be focused on fostering continued low unemployment, low inflation, low interest rates, and rising family incomes.

The current process of crafting the Federal Government's \$1.8 trillion budget is unquestionably complex, time consuming, and incomprehensible to the American people. There is also an apparent bias within the process that encourages increased

spending and penalizes efforts to make government less intrusive and more responsive to the needs of our nation's citizens. Equally troubling, the current budget process does not seem well suited to deal with the emerging issues resulting from budget surpluses or the looming challenges of Social Security and Medicare reform that threaten our country's economic security.

In our view, budget process reform must focus on three key points: (1) help Congress fulfill its past commitments to fiscal discipline; (2) improve the ability of policymakers to deal with the unavoidable challenges facing upcoming Federal budgets; and (3) promote non-inflationary economic growth for current and future generations. The BRT is pleased to see that H.R. 853 contains a number of provisions that move Federal budget process reform in the proper direction. For example:

Giving the budget resolution the force of law. Requiring Congress and the President to reach consensus during the early stages of the taxing and spending process is an important improvement over the current system. Since the current budget resolution does not require the President's signature, there are no incentives for the legislative and the executive branches to resolve budget and tax differences until the end of the fiscal year when a government shutdown becomes a real possibility.

Defining emergency spending. A major flaw with the current discretionary spending caps has been the inclusion of an "emergency clause" that permits spending to exceed those caps in order to address natural disasters and international crises. However, this special exception has been used in almost every fiscal year as an escape valve to avoid the difficult decisions involved in reestablishing spending priorities in order to address unanticipated spending emergencies. Placing an enforceable definition of what constitutes a "budget emergency" is long overdue and is one of the most constructive improvements that Congress can provide to the budget process.

Creating an emergency/reserve spending fund. Rather than continuing the current practice of spending the full statutory limit, a more rational approach would be to have the appropriations process spend less than the amount permitted under the discretionary spending caps. H.R. 853's provision of creating a reserve fund equal to the average "emergency" spending over the last 5 years seems reasonable and prudent. This reserve fund will help assure that budgetary resources under the discretionary caps will be available when natural disasters and international crises occur.

Budgeting for unfunded liabilities. The untold story behind current budget surpluses is that these cash balances do not take into account the trillions of dollars in unfunded liabilities that future Federal budgets must address. For example, the Federal Government's future unfunded liabilities total more than \$14 trillion for Social Security and Medicare benefits, \$2 trillion in pension and health care costs for military and Federal civilian retirees, and \$4.9 trillion in Federal insurance programs. These unfunded liabilities mean that the Federal Government has promised benefits to our nation's citizens, yet there are no budgetary resources available to pay for them. Although H.R. 853 does not require specific reforms to these unfunded programs, the legislation creates an important first step by identifying these liabilities within the budget process and within the budget document. This information, in turn, will help educate policymakers and the American people as to the magnitude of the unfunded liability problem and will force policymakers to start considering needed structural reforms.

All of these reforms within H.R. 853 are important contributions toward improving how Congress and the Administration spend taxpayers' money. The current budget process is confusing to the American people and these proposals begin the process of streamlining how budget and taxing decisions are made.

However, the Business Roundtable encourages the House Budget Committee and the entire House of Representatives to examine additional reforms to the Federal budget process that we believe will further advance the fundamental changes that are required. For example, we hope Members of Congress will consider: (1) restoring a constitutional version of the line-item veto; (2) establishing biennial budgeting; (3) enacting entitlement spending limits to bring entitlement spending under greater congressional control; and (4) establishing a mechanism that preserves Social Security surpluses and uses them to help retire a portion of the national debt.

Mr. Chairman, I greatly appreciate your willingness to permit the BRT to discuss its views concerning H.R. 853 and the need for comprehensive reform of the Federal budget process. The Business Roundtable stands ready to assist Congress in any way possible to streamline and improve the current budget process. BRT further commends the leadership and hard work that Representatives Nussle, Cardin, and Minge have shown in fashioning a bipartisan approach that will greatly improve the chances of budget process reform being enacted during the current Congress. Thank you much for your attention and consideration.

[The prepared statement of Mr. Goss follows:]

PREPARED STATEMENT OF HON. PORTER GOSS, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF FLORIDA

Mr. Chairman, I am pleased to be here today to discuss the specific proposals outlined in H.R. 853. First, I would like to commend you and particularly Reps. Nussle, Cardin and Minge for their tireless efforts to develop this bipartisan reform plan. It has been a long road but I do think we have a very fine work product one that we should be quite proud of.

As the committee is aware, two of the major pillars of H.R. 853 the joint budget resolution and the emergency reserve fund properly fall under the jurisdiction of the Budget Committee. I firmly believe that the joint budget resolution will provide greater opportunity for agreement between the White House and Congress earlier in the process, while maintaining the requisite flexibility to move alternatives should we disagree. The emergency reserve fund should make sense to most Americans who are forced to budget up-front for their own emergencies.

But I would like to focus most of my comments today on the provisions in H.R. 853 that fall under the jurisdiction of the Rules Committee. As Chairman of the Subcommittee on Legislative and Budget Process, I have been working on reforming our broken budget process for several years and I am grateful that we have been able to work so well with our counterparts on the Budget Committee. By working closely together at the Member and staff level, we have been able to ensure that the provisions in our jurisdiction complement the important reforms under your watch.

Mr. Chairman, as you well know, our budget process is broken. As Rep. Minge alluded to on the house floor this week, we are unfortunately seeing a repeat of last year's omnibus appropriation debacle with the emergency supplemental we approved this week. In a way, this may be a blessing in disguise as it has placed this sometimes arcane subject directly on the radar screen of Members. The cloakrooms are buzzing about the need for reform, and H.R. 853 provides a common sense, bipartisan answer.

The Rules Committee-specific elements in H.R. 853 intend to bring some overdue accountability to the budget process. We create a requirement that committees include a budget compliance statement in reports to accompany legislation. The statement would be furnished by your committee to indicate whether the bill falls within allowable levels of spending. On a bipartisan note, we have added a long time proposal of our ranking member, Rep. Moakley, to apply Budget Act points of order to unreported bills as well, closing a loophole for the larger pieces of legislation that are not reported out of committee.

I am particularly excited about a provision in H.R. 853 to require committees to submit schedules for reauthorizing programs within their jurisdiction within 10 years or less. We go further and prohibit the consideration of new spending programs unless their duration is for 10 or fewer years. As the chairman well knows, programs tend to take on a life of their own around here and this is an incremental, but important, step toward enhanced oversight and committee accountability.

We also decided to get tougher on ourselves by requiring our committee to justify waivers of budget act points of order and to estimate the costs of those waivers. We all recognize that waivers will be necessary from time to time. However, Members and the public should know the reasoning behind the waiver so they can make better, more educated decisions about the underlying piece of legislation.

Finally, we incorporate a number of popular proposals of Members. We include a provision long championed by a member of the Budget Committee, Rep. Nick Smith, to require an up or down vote on increasing the debt limit. By repealing the so-called Gephardt rule in this manner, we hope to move toward more sunshine and more accountability. We have also established procedures for a spending cuts lock-box to "lock away" savings in appropriations bills a bipartisan provision whose time has clearly come.

Mr. Chairman, the time is ripe for budget process reform. The American people recognize the process is flawed and outdated and Members on both sides of the aisle are frustrated with the current system. H.R. 853 does not answer all the questions and it does not move as far in some areas as some of us would have liked. But it is a serious, thoughtful and comprehensive approach to a very real problem. It is designed to make a difference, and not just a political statement. Thanks again for holding this hearing and I look forward to working with you in the near future to pass H.R. 853.

[The prepared statement of the Concord Coalition follows:]

PREPARED STATEMENT OF MARTHA PHILLIPS, REPRESENTING THE CONCORD
COALITION

I am pleased to appear today in support of H.R. 853, a bipartisan bill to strengthen the budget process. I am representing the Concord Coalition, a nationwide, grass-roots bipartisan organization dedicated to strengthening the nation's long term economic prospects through prudent fiscal policy.

BACKGROUND

Concord's co-chairs are former senators, Warren Rudman (R-NH) and Sam Nunn (D-GA). They, along with our approximately 200,000 members who hail from every state, have worked hard in recent years to help build a political climate that encourages elected officials to make the tough choices required to 1) balance the Federal budget, 2) keep it balanced during times of peacetime prosperity, and 3) prepare for the budget problems that will occur as the nation's population becomes sharply older in coming decades.

Balancing the Federal Government's books is the single most effective policy we have to increase savings, which in turn are the key to long term economic growth. Savings provide the capital needed to increase the productivity of American workers, something that will become especially urgent when the retirement of the huge baby boom generation virtually halts growth in the size of the U.S. work force. With a fixed-size work force, economic growth and an improving standard of living will depend almost entirely on how much we invest in gaining additional output from each person working in our economy.

Concord believes that not only should we put the rest of the government's accounts into balance, we should also use the current economic, fiscal, demographic and political windows of opportunity to address the long-term Social Security and Medicare deficits that will accompany the aging of America. These looming and unsustainable deficits threaten to undo the hard work and fiscal discipline of recent years and undermine our potential for future economic growth.

BUDGET PROCESS REFORM

Given this mission and set of concerns, it should be readily apparent why the Concord Coalition strongly supports establishing tight fiscal discipline procedures and enforcing them scrupulously.

The Congressional budget process that has been developed over the last couple of decades has helped enormously in improving fiscal discipline compared to the situation in the 1960's when there simply was no Congressional budget process and only the aversion to increasing the public debt to hold things in check. The president submitted his budget each year, Congress enacted appropriations, and in most election years, tax cuts. Sometime after the dust had settled, a report came from the Treasury Department adding up the damage. An obscure two-person staff attached to the Appropriations Committee was what passed for congressional scorekeeping and few people knew what they did or thought that it mattered.

Budget enforcement procedures enacted in 1974 have been continually refined through trial and error, the reconciliation process launched in President Carter's last year in office, Gramm-Rudman in 1985, mini-budget summits and establishment of discretionary and mandatory aggregates in 1987 and 1988, and the Budget Enforcement Act in 1990. These changes have helped Congress manage the political pressures inherent in our competitive democratic (small d) political system in which the rewards are for reducing taxes and delivering helpful benefits, services and public works are more immediate and direct than the distant, diffuse and indirect rewards for prudent financial management.

As the authors of H.R. 853 understand, budget discipline require observing not just the letter of the law, but also the spirit of the law. In other words, no matter how clever the budget mouse trap, it will not work without political will. But budget rules and disciplines can raise the hurdles and make it more difficult to fling fiscal probity aside. H.R. 853 proposes a number of very useful improvements in the evolving budget process and changes that are needed as the politics of surplus replace the politics of deficit.

The budget process is complicated, confusion and often confounding. The first Congressional budget procedures were drafted largely in response to Congress's dismay over the Nixon Administration's impoundment practices; and the intention of the budget process in the early years was not to reduce the growing deficit, but rather to bring information, rationality, and advance planning to Congressional enactment of spending and taxing authority.

Today, the budget process is first and foremost a tool of fiscal enforcement. It is a detailed set of rules about what can and cannot be done, how and where limits are set. As with discipline in almost any situation, it's understood that limits are, on balance, good for us. But we often don't like them when they get in the way of what we want to do. So the natural response is to test the limits in an attempt to get our way without getting caught.

Looking at the Congressional budget process as it is currently practiced, where are changes needed in order to establish and enforcement such limits? H.R. 853 addresses the very places where budget enforcement has broken down most flagrantly in the recent past—emergency spending, end-game tactics, scoring of Federal insurance programs, creation of new entitlements, and lack of enforcement of the existing budget discipline rules.

BUDGET FORMAT CHANGE

The budget process since 1974 has evolved from one that aimed at providing information to one that drives fiscal discipline. The 20 budget functions provide useful information, but they have nothing to do with budget enforcement. Instead, budget discipline is enforced through aggregate limits on direct spending, discretionary defense and discretionary non-defense spending, revenues, deficits and the debt.

H.R. 853 would simplify the budget resolution to these aggregate categories. Agreements on large aggregates are often easier to reach than agreements on the component parts, since all parties can assume that their own highest priorities will be accommodated and someone else's will come at the end of the list if there isn't sufficient room to do everything. Parties to the agreements undoubtedly will have their own list of specific spending levels that they assume can be accommodated within the aggregates, and under the bill, budget functions will continue to be displayed in the committee report for informational purposes and will reflect the majority's assumptions.

However, agreeing at the beginning of the year on the enforceable totals for direct mandatory spending, discretionary defense and non defense spending, emergency spending and revenues is a vast improvement over the current process. These levels will function as decision-forcing limits. The issue is not "how much shall we spend?" but rather, "how shall we divide up the allowable resources?" The proposed change simply makes explicit what has become implicit as policy makers have gained experience with budget enforcement.

Concord is pleased to see that the proposed legislation continues to exclude Social Security revenues and benefit payments from the aggregate totals for revenue and spending. This is appropriate, since the Social Security surplus funds have too long been used to finance deficit spending by the rest of the government.

JOINT RESOLUTION

I personally have long advocated changing the budget resolution to a Joint Resolution that requires the President's signature. The allocation of constrained resources is a tough political process, and the earlier in the year that agreement can be reached on at least a general framework, the better. If the budget resolution continued to require function-by-function detail, the Congress and the White House would seldom be able to agree on a joint resolution, particularly during times of divided party control. However, even with different parties in control of different chambers or branches of government, it should be possible most years to agree on aggregates.

The bill provides that if agreement cannot be reached, Congress will fall back to the current practice of enacting a concurrent resolution, which does not require the President's signature. But if agreement can be reached on a Joint Resolution that the president signs, then both ends of Pennsylvania Avenue will be more likely to cooperate on enforcement, and less prone to driving Sherman tanks through loopholes.

Passage of a joint budget resolution signed by the president should also be of considerable help in managing the difficult end-game at the close of each session of Congress. Lately, the closing days of the session have become a very costly and unattractive combination of food-fight and budgetary chicken in which the aim of each side seems to be to inflict maximum political embarrassment on the other while getting as much as possible for one's own spending or tax priorities. In the melee, scoring doesn't have a chance to keep pace with the action. After the session is over and the dust settles, the results are toted up and the taxpayer finally gets an assessment of the damage. A joint budget resolution linked to strengthened enforcement procedures could help prevent these end-game spending gluts in the future.

The bill also provides for an automatic continuing resolution to provide funding in lieu of any regular appropriation bills that have not been enacted before the beginning of the fiscal year. An automatic CR should also result in eliminating the worst end-game practices, since the threat of shutting down the government will no longer be relevant. The bill would set the automatic CR level at the prior year's level. Thus some pressure would still exist for those who wished to see appropriations for particular programs set either higher or lower than the previous year to work out compromises that would result in a regular appropriation.

EMERGENCY SPENDING

Emergency spending, particularly appropriations at the end of the session, arguably has become the largest loophole in the Congressional budget process.

The current emergency spending provisions were enacted in 1990 when the Budget Enforcement Act was devised. Those of us who were in the room in 1990 recall that many long hours of bipartisan effort went into trying to write criteria for what would qualify as emergency spending. It seemed that for every definition that we attempted, someone could come up with an example that we all agreed was truly an emergency but somehow didn't fit the proposed definition, or an example that we all agreed was not an emergency but somehow did seem to fit the proposed definition. At last it was agreed that since Congress and the White House undoubtedly would observe the spirit of the budget process, it was sufficient to say that an emergency was whatever both Congress and the President designated it to be. That has not worked.

One serious problem has been that not enough is appropriated through the conventional appropriations process to finance adequate the disaster relief programs. Scarcely a year goes by without a devastating fire, flood, drought, earthquake, tornado, hurricane somewhere in the nation. About the only things that are predictable about such disasters is that they will occur, and that Americans will willingly provide assistance to the devastated victims. Over time, the cost of responding to these tragedies is also roughly predictable. We don't know what disaster or emergency lies ahead, but we must assume that there will be one. Yet, year after year, insufficient funds are appropriated through the basic 13 appropriations bills to finance even an average level of disaster spending. All the allocated discretionary funding get used up for other purposes. Then when disaster strikes, it's too late to say, "we should have kept some funds in reserve." The spending limits have already been reached and it is necessary to exercise the emergency spending provision.

Another serious problem is that in the last several months, all sense of restraint and proportion regarding the emergency designation have broken down. The glut of emergency spending at the end of the 105th Congress was a major breach of the spirit of the budget process and resulted in a hemorrhage of tens of billions of dollars of non-emergency spending financed out of the Social Security surplus. The supplemental appropriation currently in process, which responds to unanticipated needs for defense spending related to the Kosovo situation, to aid Hurricane Mitch victims in Central America is showing every sign of turning into an undisciplined "pile on." The amounts requested by the Administration have been doubled, with most of the extra funds going to pay for defense spending that normally would be provided in the Fiscal Year 2000 appropriations process. Since discretionary appropriation limits are extremely tight, Congress is succumbing to the temptation to use the emergency spending loophole to cram in regular defense spending now in a way that doesn't count toward the appropriations limits. Particularly egregious provisions are those that expand entitlement spending by rolling back military pension reforms. Any notion of enacting offsets to pay for the phony emergency items seems to have long since been forgotten. The emergency spending procedures, in short, have given way to sheer budget hypocrisy.

H.R. 853 proposes several useful changes to address the situation. The automatic increases in discretionary and mandatory limits to accommodate emergency spending would be repealed and any spending that exceeds the enforceable limits in mandatory and discretionary spending would result in a sequester. A clear procedure for determining whether an emergency exists would be established along with a definition of what constitutes an emergency: namely that it is needed to address "loss of life or property, or a threat to national security," and that it is unanticipated, which is defined as sudden, urgent, unforeseen and temporary. As part of the budget resolution, a reserve fund would be set aside in advance of the appropriations process to finance emergencies up to a level equal to a 5-year rolling average. Finally, a fall back procedure would be established to deal with truly extraordinary emergency spending beyond what can be financed through the reserve fund.

In combination, these changes would help to restore budget discipline in the case of emergency spending, and the Concord Coalition endorses their enactment. Indeed, in terms of sheer dollar amounts, the proposed package of emergency spending provisions may be the most important part of the bill.

LONG-TERM INSURANCE LIABILITIES

The current scoring procedures do not accurately reflect the long term Federal liabilities associated with various government insurance programs such as bank and credit union deposit insurance, crop insurance, flood insurance, pension insurance, political risk insurance (OPIC) and Federal employees' and veterans' life insurance. The premiums paid by purchasers of the insurance are booked immediately and appear to improve the government's bottom line. But the government's obligation to make payments in satisfaction of insurable events do not appear on the government's books until they occur. If premiums are too low to pay insurance benefits when they come due, the government must cut other spending, raise taxes, or borrow from the public to meet those obligations.

H.R. 853 proposes setting up a new scoring and accounting system for Federal insurance programs to deal with these problems. It would be similar in many respects to the scoring that was devised for Federal credit programs in 1990. Insurance programs would, in essence, be subject to accrual accounting, and methods would be developed for estimating the government's long-term liabilities and integrating these estimates into the budget process.

Experience with developing a new accounting system for Federal credit programs shows that while such methodology can be developed and successfully implemented, it is not easy to do so. Nevertheless, the attempt should be made to update scoring methodology for Federal insurance programs.

The largest Federal insurance programs—Social Security and Medicare—are specifically exempted from these new procedures. Yet these programs, which will be severely impacted by the aging of our nation's population in the next few decades, have enormous unfunded liabilities, amounting to XX trillion, if not more. The bill does propose that both OMB and CBO report on long-term budgetary trends for these large entitlement programs, over a 75-year horizon, analyzing how present law and proposed changes would affect spending, revenues, deficits or surpluses. However, much of that information is already available and has little impact on the willingness of either branch of government to address the unfunded liabilities of these two large programs.

NEW AND EXISTING ENTITLEMENTS

Entitlement programs are the most difficult to manage under the budget process since they are guaranteed what ever funds are required to meet their obligations, sometimes long after current priorities would support them. In contrast, discretionary programs must have their funding renewed annually or every few years, and appropriations for each discretionary program must compete for scarce resources against all the other valid and attractive uses for the same money. Someone once suggest a working definition of an entitlement: "a discretionary program that has died and gone to heaven. It always gets its funding, never has to go to the Appropriations Committee, and never has to justify why it should get money ahead of other programs."

H.R. 853 will address this situation in several ways. New entitlements would be subject to annual appropriations. Legislation authorizing new entitlements lasting longer than 10 years would not be allowed. If the Appropriations Committee offsets new discretionary programs with reductions in entitlements, it would be held harmless through cap and PAYGO scorecard adjustments. Creation of new entitlements or expansions of existing ones would have to be justified by the Budget Committee. And an oversight review of all programs, including entitlements, would be required within a 10 year time frame

SPENDING GOVERNMENT SURPLUSES

The prospect of on-budget surpluses raises an entirely new dimension to the budget process. The Concord Coalition is very concerned about the large unfunded liabilities in the Social Security and Medicare programs when baby boomers retire and begin claiming benefits. We strongly oppose using Social Security surpluses to finance deficits in the rest of the government.

However, the use of surpluses resulting from revenues and expenditures in the rest of the government, excluding Social Security, are a different matter. There is room for a legitimate debate over how these "rest of government" surpluses should

be used. Concord would assign highest priority to reducing the public debt. We believe this would increase national savings available for investments in future productivity and would have a greater payoff than most tax cuts or government spending. Others disagree and would prefer to use "rest of government" surpluses for tax cuts, investments in education, infrastructure, research and development that promise to spur economic growth in the future. And some would choose to use the money to provide services that would benefit citizens today.

H.R. 853 allows for the use of "rest of government" surpluses. Concord does not oppose this provision. However, we are concerned that spending increase or tax cut commitments might be made in anticipation of budget surpluses that either do not materialize at all or are not as large as expected. The authors of the bill have anticipated this by providing that if legislation is enacted that exceeds the actual surpluses, a sequester will occur unless the shortfall is made up..

OTHER PROVISIONS

The bill contains a number of other helpful and useful provisions for improving budget discipline and providing timely information. The requirement that the Congressional Budget Office produce cost estimates of conference reports is particularly helpful. Applying budget enforcement rules to legislation that somehow makes it to the floor without being reported from committee is another useful provision.

A 60-vote requirement in the Senate raises the hurdle for bypassing budget enforcement points of order, but in the House, rules for consideration of legislation frequently waive budget enforcement points of order, and there is no recourse for Members who wish to enforce the budget process other than to defeat the rule. There is no point in having budget enforcement rules if they are constantly ignored. The bill addresses this situation by requiring the Rules Committee to justify any rule that waives budget points of order. Until such justifications become pro forma, this provision might have a dampening effect on ignoring budget discipline.

[The prepared statement of Mr. Frenzel follows:]

PREPARED STATEMENT OF BILL FRENZEL CO-CHAIRMAN, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Thank you from myself, and from the Committee for a Responsible Federal Budget, for the opportunity to testify on this important subject. Because I expect to be out of the country at the time of the hearing, this written testimony will have to do for now. However, because I believe the Bill, and the reforms, you are discussing are so important, I will be glad to sit down with you, or any member of this distinguished committee, to review at length any of these matters at a mutually convenient time.

It is my understanding that your hearing will focus on the reforms contained in H.R. 853, introduced this year by Mr. Nussle (IA), Mr. Cardin (MD) and Mr. Goss (FL), the latter of whom is the Chairman of your Process Subcommittee, and others, including yourself, Mr. Chairman, and the Chairman of the House Budget Committee. I will also refer to the pioneering work done by Mr. Barton (TX) in H.R. 2599 (1995), H.R. 4142 (1996), and H.R. 2003 (1997), and to some of the ideas of the Chairman of the Senate Budget Committee, Mr. Domenici, mostly expressed in S. 92 and S. 93, which has now been divided into a number of other bills.

Following the form of the authors' highlights of H.R. 853, provided by your staff, my comments are as follows:

I. JOINT BUDGET RESOLUTION

Junking the present Concurrent Resolution, and substituting a Joint Resolution which must be signed by the President, is essential to making the Budget Process into a serious exercise. The fact that we now have two budgets is source of considerable mischief, and of infinite confusion about "baselines". One single budget is easier for the public to understand. It would create a new level of political accountability sadly lacking in the current process.

It would be easier for the Congress, CBO, OMB and the President to deal with. It should move much of the negotiations which now clog the end-of-the-fiscal-year period up into the end of the second quarter of the year.

The enforceable discretionary caps long sought by Mr. Barton, and supported by Mr. Domenici, would become a matter of law with a firewall between defense and non defense spending. We would still strongly prefer a 5 or 6 year extension of the caps in the Joint Resolution.

Reducing the 20 present budget functions to total spending and revenue levels with separations for discretionary and mandatory spending is a useful simplification, similar to the recommendations of S. 93.

II. BUDGETING FOR EMERGENCIES

The requirements of H.R. 853 are essential to bandage one of the worst running sores of the current process. When the Congress and the President wave the magic wand of “emergency” over routine expenditures, they give the process a bad name and weaken public trust and understanding. No language, outside of capital punishment, is strong enough, but this helps.

We still prefer the stronger protections of Mr. Barton’s H.R. 2599.

III. ENFORCEMENT

The strengthened enforcement procedures of H.R. 853 are the very least that should be considered. Waiver approval, by this committee, is another good proposal. I pray the committee will set a strong precedent of gimlet-eyed scrutiny and a willingness to say no when it needs to be said.

IV. INCREASED ACCOUNTABILITY

This is another set of useful proposals. The 10 year sunset of new spending proposals is a particularly good.

Because of the Senate’s lack of a germaneness rule and its willingness to amend anything, I am less enthusiastic about having separate votes on the debt. Such votes have the odor of accountability about them, but, in fact, they have not improved fiscal sobriety in budgeting. In my judgment, they simply offer fresh opportunities for mischief.

V. ACCRUAL BUDGETING

For non-CPAs, it is often useful to peek into the till, but accrual accounting is the right way to handle the long term insurance programs covered here.

With respect to protection of Social Security, the provisions are important and necessary for public confidence in the American Social Contract. Mr. Barton has expressed similar ideas, and Mr. Domenici’s lock box language is even better.

VI. REDUCING THE BIG SPENDING BIAS

Comparisons with last year’s spending is a huge step forward. The public will understand the comparisons, and love them!

Stop-gap appropriations at last year’s spending levels may be an improvement over the present process. They will protect the Congress from its own folly, but they represent a power shift from the legislative branch to the executive. We prefer the Barton figure of 95%, or lower, rather than the 100% in H.R. 853. At 100%, we believe that there may be insufficient incentive to negotiate.

The discretionary savings’ lock-box provisions will provide incentives for spending reduction amendments, and may be one of the great “sleepers” provisions of the bill.

VII. PAY-GO IN TIMES OF SURPLUS

It may accurate to describe our committee as elderly and unable to think in terms of the modern “surplus” economy. Nevertheless, it makes me nervous to relax any hard-won restrictive rules. This feature may be a reform, but we remain unconvinced of its value. It opens doors we would prefer to keep closed. This feature is may be necessary in this modern era, and is similar to provision prepared by Mr. Barton in his 1998 version which was not formally introduced.

VIII. OTHER REFORMS NOT IN H.R. 853

1. Biennial Budget—Both Mr. Barton and Mr. Domenici favor. Our committee recommended it to Congress in 1994. You may have to consider it somewhere in the process of reform. But, in my judgment, Biennial budgeting pales in comparison to the many other splendid reforms in H.R. 853.

2. Enhanced Rescission—Since the Court decision on the Line-Item-Failure, I believe it is now responsible to revisit this subject. The committee and I have always thought that, at the very least, a vote ought to be required to give a rescission item a proper burial.

3. Entitlement Caps—Neither H.R. 853 nor Mr. Domenici includes this subject. We still stand with Mr. Barton on his 1995 proposal, but we harbor no illusions that your committee is going to jump off this cliff.

Mr. Chairman, your committee is engaged in as important a labor as the Congress will work on this biennium. The Committee for a Responsible Federal Budget congratulates you, and the distinguished members of your committee, for this undertaking. Our committee would love to term limit itself as soon as a responsible Federal budget is no longer an oxymoron. If you can enact what is now before you, you will be helping us toward the retirement we so earnestly seek and richly deserve.

Chairman KASICH. And with that, we will stand adjourned.

[Whereupon, at 3:40 p.m., the committee was adjourned.]

